United States Department of State

MISSION & VALUES

MISSION

Create a more secure, democratic, and prosperous world for the benefit of the American people and the international community.

VALUES

Loyalty: Commitment to the United States and the American people.

Character: Maintenance of high ethical standards and integrity.

Service: Excellence in the formulation of policy and management practices with room for creative dissent. Implementation of policy and management practices, regardless of personal views.

Accountability: Responsibility for achieving United States foreign policy goals while meeting the highest performance standards.

Community: Dedication to teamwork, professionalism, and the customer perspective.

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I am pleased to present the Department of State's *Performance and Accountability Report for Fiscal Year 2003* . The report presents our audited financial statements and measures our performance against the major objectives we set for our agency.

The Department of State's mission is to help President Bush shape a world of greater security, freedom and prosperity for America's sake and for the sake of people all around the globe who seek a better future for themselves and their children.

The men and women of American diplomacy are playing an instrumental role in marshaling and advancing international support for the worldwide campaign against terrorism. We serve at the forefront of the international reconstruction efforts in Afghanistan and Iraq. We are working to strengthen our alliances and partnerships in Europe, Asia and the Western Hemisphere to meet 21st century security challenges. With faithful friends and former foes alike we are working to stem the proliferation of weapons of mass destruction and bring an end to conflicts.

Our embassies and consulates assist U.S. citizens abroad who are victims of serious crime and during times of instability. We are helping to build up the law enforcement capabilities of foreign governments to stop drug-traffickers and other criminals before their poison reaches American soil. We are protecting our homeland by strengthening the process for identifying suspected terrorists and preventing them from obtaining visas to enter the United States.

We promote respect for human rights and the growth of democracy in every region. American diplomacy is forging partnerships with citizens' groups, the private sector and governments all around the world to turn the tide of HIV/AIDS. Through our public diplomacy, we are reaching out to foreign audiences to better acquaint them with our country and counter anti-Americanism by establishing a foundation of information and understanding. And we are advancing a new international consensus on how to help poor countries onto the path of development through good governance, sound economic, trade and environmental policies, and wise investments in their people.

In conducting our vital mission, we have been effective and accountable stewards of the taxpayers' money. For the seventh year in a row, independent auditors have given our financial statements an unqualified ("clean") opinion. I am also proud to certify that for the second year in a row, the Department's management control systems meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA). For financial systems, the Department of State's one remaining material nonconformance was closed in Fiscal Year 2003 and I am pleased to report that the Department's financial systems are in substantial compliance with the requirements of FMFIA. We have made every effort to verify the accuracy and ensure the completeness of the financial and performance data presented in this report. In the few instances where information has not been provided, we give specific reasons why.

With the support of President Bush and broad bipartisan backing from Congress, the Department of State has made significant progress building capacity in three fundamental areas: human resources, information technology, and embassy construction and security. We must keep the focus on these key areas in the demanding years ahead, so that the dedicated men and women of the State Department have the training, tools and infrastructure they need to serve our country safely and successfully across the globe on the frontlines of freedom.

Colin L. Powell
Secretary of State

MESSAGE FROM THE ASSISTANT SECRETARY AND CHIEF FINANCIAL OFFICER

The *Performance and Accountability Report for Fiscal Year 2003* (Report) provides our most important financial and program performance information for the United States Department of State. It also is our principal publication and report to the President and the American people on our stewardship, management, and leadership of the public funds to which we have been entrusted.
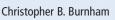
It has been an exceptional year. For the seventh consecutive year, the independent CPA firm selected by our Inspector General, has issued an unqualified ("clean") opinion on the Department's consolidated financial statements. This is the best possible audit result. With it the American people can have confidence that the financial statement information presented here is both accurate and reliable. Along with this opinion, the Department achieved a number of other key goals.

- For the first time since the inception of the Chief Financial Officers (CFO) Act, the independent CPA firm has reported no material weakness in internal control;
- Also for the first time, the Secretary has been able to issue an unqualified Statement of Assurance under the Federal Managers' Financial Integrity Act (FMFIA) on both the Department's management controls and its financial systems;
- For financial systems, the Department successfully replaced two obsolete financial systems with the new Regional Financial Management System (RFMS) implemented at all overseas posts. RFMS provides the Department the ability to know the worldwide status of accounts on a timely basis, something never before possible. In addition, the Department's one remaining material nonconformance under FMFIA was closed in 2003 and the independent CPA firm has reduced the previously reported material weakness in information systems security to a reportable condition for FY 2003. After assessing the audit results as of September 30, 2003, and in consideration of the foregoing developments and additional improvements to our financial systems in the first quarter of FY 2004, we believe that the Department's financial management systems substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The Department will continue its ongoing effort to enhance its financial systems in FY 2004 and beyond;
- Recognizing the quality of our reporting, for the second year in a row, the Department received the most prestigious award in Federal government financial reporting, the Association of Government Accountants' Certificate of Excellence in Accountability Reporting, one of only three cabinet-level departments to win this award in 2003;
- As part of the commitment to the very best financial operations, the Department has been consolidating and streamlining financial operations worldwide. In 2003, we successfully relocated operations from the Paris Financial Service Center (FSC) to the new Charleston, South Carolina FSC and Bangkok, Thailand FSC, and finalized plans for relocating work to Charleston from our Washington, D.C. operations; and
- With USAID, the Department developed the first-ever joint State-USAID Strategic Plan that will ensure better alignment between foreign policy and development assistance, and to further improve operations, is implementing with USAID a common worldwide financial systems platform.

For the past three years, President Bush has led the effort on management reform through his President's Management Agenda initiatives. Two of these are Improved Financial Performance, and Budget and Performance Integration. In support of this strategy, the Department will continue integrating budgeting and planning into all aspects of our stewardship, and provide timely and accurate financial and performance information that facilitates foreign policy decision-making.

While there are no material weaknesses or non-conformances reported under FMFIA, the Department continues to maintain a robust system of management controls overseen by senior leadership. The Department's Management Control Steering Committee (MCSC) meets regularly to review pending concerns raised by the Inspector General, the independent CPA firm, GAO and others.

In addition to financial performance, this Report also covers policy and program performance — how well the Department implemented the foreign policy goals of the President and Secretary of State. The reader can see our nation's foreign policy strategic goals, along with performance measures, performance trends, and results achieved. From the very first strategic objective, "Achieve Peace and Security," to "Strengthen Diplomatic and Program Capabilities," we present to the American people a transparent assessment of results for the prior fiscal year. Encompassing the war on terror, the struggle to end regional conflicts, to programs on the rule of law, and the fight against HIV/AIDs and other diseases, the Performance Section of this Report describes our work. It also shows our effort to fulfill the Department's mission, "to create a more secure, democratic, and prosperous world, for the benefit of the American people and the international community."

Christopher B. Burnham
Assistant Secretary for Resource Management and Chief Financial Officer
December 31, 2003

ABOUT THIS REPORT

The Department of State's Performance and Accountability Report for Fiscal Year 2003 (Report) provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Department relative to its mission and stewardship of the resources entrusted to it. This Report satisfies the reporting requirements of the following legislation.

- Chief Financial Officers Act of 1990
- Federal Financial Management Improvement Act of 1996
- Federal Managers' Financial Integrity Act of 1982
- Government Management Reform Act of 1994
- Government Performance and Results Act of 1993
- Reports Consolidation Act of 2000

W THIS REPORT IS ORGANIZED

■ MESSAGE FROM THE SECRETARY OF STATE

The Secretary's message includes an assessment of whether financial and performance data in the Report is reliable and complete, and a statement of assurance as required by the Federal Managers' Financial Integrity Act (FMFIA) indicating whether management controls are in place and financial systems conform with government-wide standards.

■ MESSAGE FROM THE ASSISTANT SECRETARY FOR RESOURCE MANAGEMENT AND CHIEF FINANCIAL OFFICER

The Assistant Secretary's message describes progress and challenges pertaining to the Department's financial management, integrating budget and performance, and information on the Department's management controls program under FMFIA and financial management systems under the Federal Financial Management Improvement Act of 1996.

■ MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The MD&A is a concise overview of the entire Report. It includes an organizational overview, a summary of the most important performance results and challenges for FY 2003, a brief analysis of financial performance, a brief description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda and addressing the management challenges identified by the General Accounting Office and the Inspector General. The MD&A is supported and supplemented by detailed information contained in the Performance Section, Financial Section and Appendices.

■ INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS

This section is an overview of the Office of Inspector General's FY 2003 performance results, which are addressed in more detail in a separate report and published as an annex to this Performance and Accountability Report, the Inspector General's summary of the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing those challenges. For more information on the OIG performance report, contact the OIG's Office of Planning, Analysis, and Results at 202-647-6969. You may also view the report on the OIG website (www.oig.state.gov).

■ PERFORMANCE SECTION

This section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and combined with the Appendices, include all of the required elements of an anual program perfomance report as specified in OMB Circular A-11, *Preparing, Submitting and Executing the Budget.* The results are presented by Strategic Goal with a chapter covering each Strategic Goal. For more information on this section, please contact the Office of Strategic and Performance Planning at (202) 647-0300.

■ FINANCIAL SECTION

This section contains the Department's financial statements and related Independent Auditor's Report; and other agency-specific statutorily required reports pertaining to the Department's financial management. For more information on this section, please contact the Office of Financial Policy, Reporting, and Analysis at (202) 261-8620.

■ APPENDICES

This section contains more detailed information on the Department's performance results including information on sources and reliability of the Department's performance data, Program Evaluations and summaries of OMB's Program Assessment Rating Tool (PART) analyses. Other appendices provide information on the Department locations, key staff and publications, along with a glossary of acronyms.
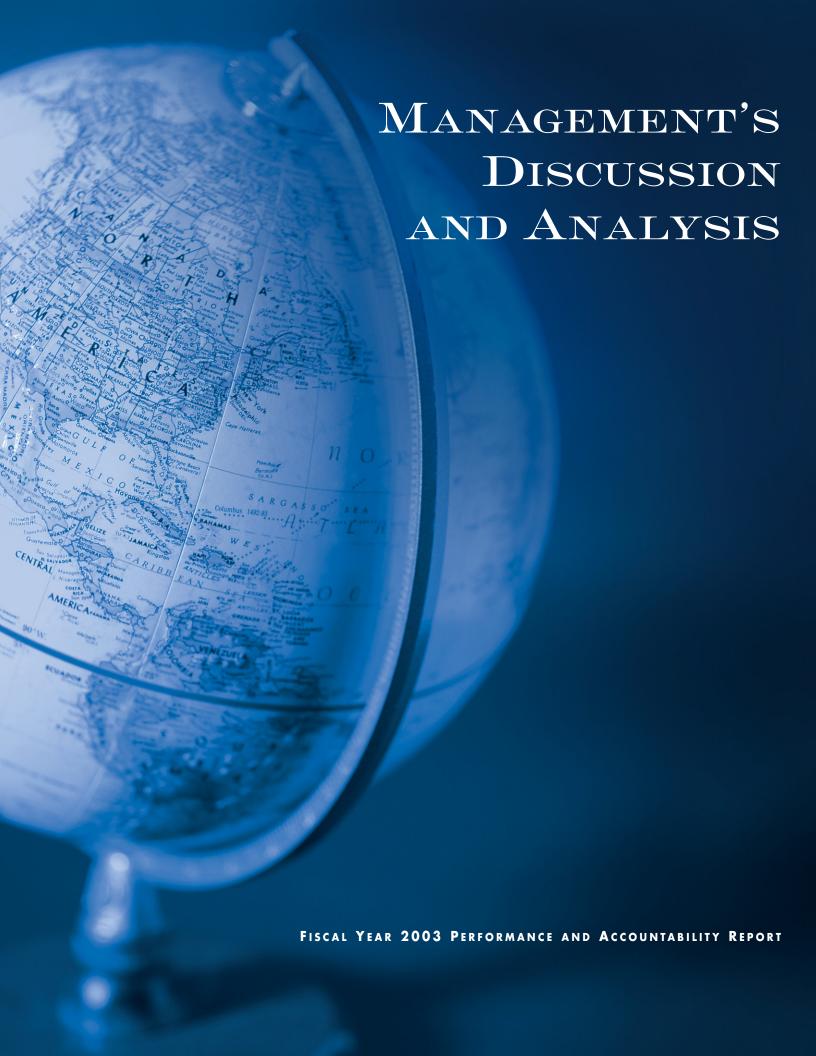
FINANCIAL AND PERSONNEL HIGHLIGHTS

(Dollars In Thousands)	% Change 2003 over 2002	2003	2002	2001
At End of Year:				
Condensed Balance Sheet Data:				
Investments, Net	+5%	$ 12,301,173	$ 11,750,737	$ 11,206,403
Fund Balances With Treasury	+11%	9,953,197	8,937,139	7,652,119
Property and Equipment, Net	+9%	5,996,493	5,499,850	4,870,466
Other	-1%	643,783	652,431	494,845
Total Assets	+8%	$ 28,894,646	$ 26,840,157	$ 24,223,833
Foreign Service Retirement Actuarial[1]	+7%	$ 13,093,800	$ 12,211,800	$ 11,766,900
Liability to International Organizations	-14%	919,428	1,065,172	1,650,006
Other	+14%	1,767,908	1,547,431	1,393,571
Total Liabilities	+6%	15,781,136	14,824,403	14,810,477
Unexpended Appropriations	+19%	8,536,307	7,154,023	5,961,844
Cumulative Results of Operations	-6%	4,577,203	4,861,731	3,451,512
Total Net Position	+9%	13,113,510	12,015,754	9,413,356
Total Liabilities and Net Position	+8%	$ 28,894,646	$ 26,840,157	$ 24,223,833
Full-time Personnel:				
Civil Service	+10%	7,731	6,999	6,590
Foreign Service	+7%	10,579	9,931	9,162
Foreign Service National	+4%	9,897	9,526	9,852
Total Full-time Personnel	+7%	28,207	26,456	25,604
Foreign Service Annuitants[1]	+1%	14,581	14,392	14,768
For the Year:				
Total Cost	+13%	$ 12,222,640	$ 10,837,835	$ 9,986,843
Total Earned Revenue	+27%	(3,163,023)	(2,499,096)	(2,515,702)
Total Net Cost of Operations	+9%	$ 9,059,617	$ 8,338,739	$ 7,471,141
On-Time Payments (%)	-4%	92%	96%	96%
Electronic Funds Transfer Payments (%)	+2%	79%	77%	74%

Total Assets

Total Liabilities

Total Net Position

Total Full-time Personnel

Total Net Cost of Operations

[1] *The Department administers the operations of the Foreign Service Retirement and Disability Fund. This Fund provides annuities to retired members of the Foreign Service (or their survivors).*

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATION

American diplomacy in the 21st century is based on fundamental beliefs: our freedom is best protected by ensuring that others are free; our prosperity depends on the prosperity of others; and our security relies on a global effort to secure the rights of all. The history of the American people is the chronicle of our efforts to live up to our ideals. In this moment in history, we recognize that the United States has an immense responsibility to use its power constructively to advance security, democracy, and prosperity around the globe.

Diplomacy is an instrument of power. It is essential for maintaining effective and international relationships, and a principal means by which the United States defends its interests, responds to crises and achieves its foreign policy goals. The Department of State is the lead institution for the conduct of American diplomacy; its mission is based on the Secretary of State's role as the President's principal foreign policy advisor.

OUR ORGANIZATION

Organizational Structure in Washington, DC

At its headquarters in Washington, D.C., the Department's mission is carried out through six regional bureaus, each of which are responsible for a specific geographic region of the world. The regional bureaus and the overseas posts are supported by functional bureaus and management bureaus which provide policy guidance, program management and administrative expertise in matters such as economics, intelligence, human rights, counterterrorism, humanitarian assistance, and consular services.

Organizational Structure at Embassies
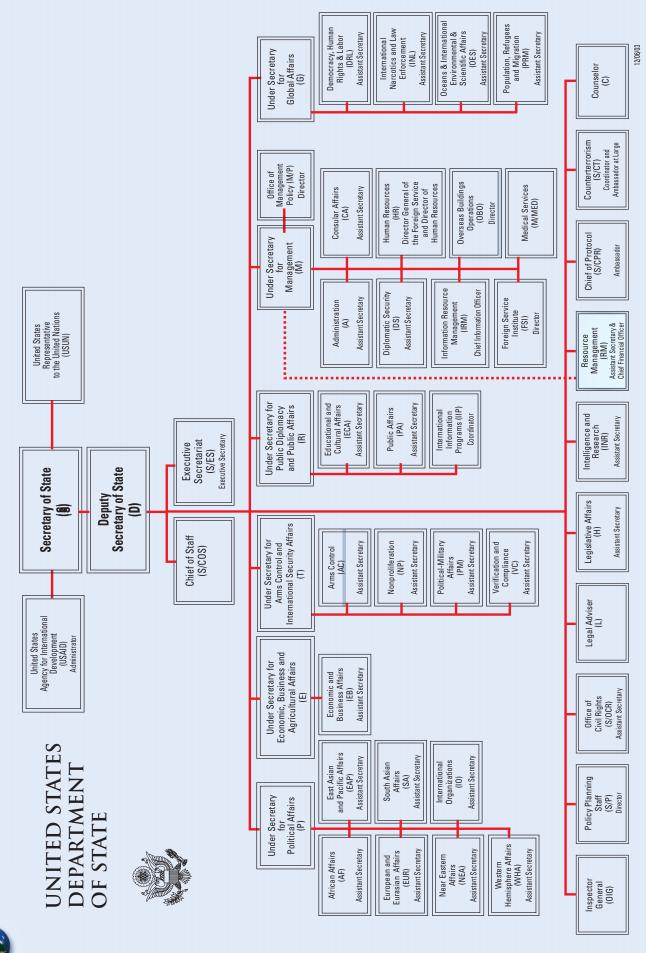
In each Embassy, the Chief of Mission (usually an Ambassador) is responsible for executing U.S. foreign policy goals and coordinating and managing all U.S. Government functions in the host country. The President appoints each Ambassador, whom the Senate confirms. Chiefs of Mission report directly to the President through the Secretary. The Diplomatic Mission is also the primary U.S. Government contact for Americans overseas and foreign nationals of the host country. The Mission serves the needs of Americans traveling and working abroad, and supports Presidential and Congressional delegations visiting the country. The Department operates more than 260 embassies, consulates and other posts worldwide.

Other Key Locations and Offices

The Department also operates national passport centers in Portsmouth, New Hampshire and Charleston, South Carolina; a national visa center in Portsmouth, New Hampshire and a consular center in Williamsburg, Kentucky; two foreign press centers; one reception center; 13 passport agencies; five offices that provide logistics support for overseas operations; 22 security offices; and two financial service centers.

UNITED STATES DEPARTMENT OF STATE

12/06/03

Secretary of State (S)

Deputy Secretary of State (D)

United States Representative to the United Nations (USUN)

United States Agency for International Development (USAID) — Administrator

Executive Secretariat (S/ES) — Executive Secretary

Chief of Staff (S/COS)

Under Secretary for Political Affairs (P)
- African Affairs (AF) — Assistant Secretary
- East Asian and Pacific Affairs (EAP) — Assistant Secretary
- European and Eurasian Affairs (EUR) — Assistant Secretary
- South Asian Affairs (SA) — Assistant Secretary
- Near Eastern Affairs (NEA) — Assistant Secretary
- International Organizations (IO) — Assistant Secretary
- Western Hemisphere Affairs (WHA) — Assistant Secretary

Under Secretary for Economic, Business and Agricultural Affairs (E)
- Economic and Business Affairs (EB) — Assistant Secretary

Under Secretary for Arms Control and International Security Affairs (T)
- Arms Control (AC) — Assistant Secretary
- Nonproliferation (NP) — Assistant Secretary
- Political-Military Affairs (PM) — Assistant Secretary
- Verification and Compliance (VC) — Assistant Secretary

Under Secretary for Public Diplomacy and Public Affairs (R)
- Educational and Cultural Affairs (ECA) — Assistant Secretary
- Public Affairs (PA) — Assistant Secretary
- International Information Programs (IIP) — Coordinator

Under Secretary for Management (M)
- Consular Affairs (CA) — Assistant Secretary
- Administration (A) — Assistant Secretary
- Human Resources (HR) — Director General of the Foreign Service and Director of Human Resources
- Diplomatic Security (DS) — Assistant Secretary
- Overseas Buildings Operations (OBO) — Director
- Information Resource Management (IRM) — Chief Information Officer
- Medical Services (M/MED)
- Foreign Service Institute (FSI) — Director

Office of Management Policy (M/P) — Director

Resource Management (RM) — Assistant Secretary & Chief Financial Officer

Under Secretary for Global Affairs (G)
- Democracy, Human Rights & Labor (DRL) — Assistant Secretary
- International Narcotics and Law Enforcement (INL) — Assistant Secretary
- Oceans & International Environmental & Scientific Affairs (OES) — Assistant Secretary
- Population, Refugees and Migration (PRM) — Assistant Secretary

Counselor (C)

Counterterrorism (S/CT) — Coordinator and Ambassador at Large

Chief of Protocol (S/CPR) — Ambassador

Intelligence and Research (INR) — Assistant Secretary

Legislative Affairs (H) — Assistant Secretary

Legal Adviser (L)

Office of Civil Rights (S/OCR) — Assistant Secretary

Policy Planning Staff (S/P) — Director

Inspector General (OIG)

PASSPORT

OUR PEOPLE

Composition and Number

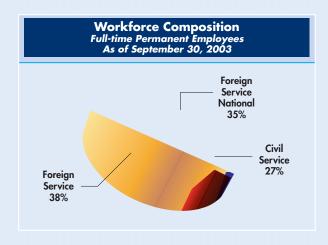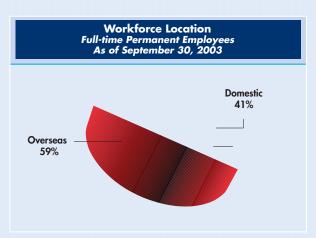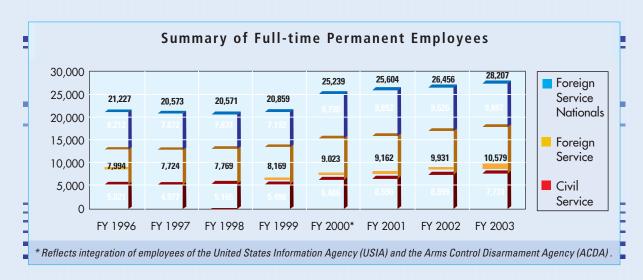The Department's workforce consists of more than 28,000 employees in the Civil Service and Foreign Service, and Foreign Service Nationals in the 162 countries where the United States is represented. The pie charts below show the distribution of the workforce among these three categories as well as what proportion of the workforce is located overseas.

Workforce Composition
Full-time Permanent Employees
As of September 30, 2003

Foreign Service National 35%

Civil Service 27%

Foreign Service 38%

Workforce Location
Full-time Permanent Employees
As of September 30, 2003

Domestic 41%

Overseas 59%

Since FY 1996, the total number of employees at the Department has increased by 33% with the greatest increase manifested in the Department's civil service staff which has increased by 54%.

The increases in staff reflect the Department's increased emphasis in the areas of security, public diplomacy, counterterrorism, and management reforms.

Summary of Full-time Permanent Employees

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000*	FY 2001	FY 2002	FY 2003
Total	21,227	20,573	20,571	20,859	25,239	25,604	26,456	28,207
Foreign Service Nationals	8,212	7,872	7,637	7,192	9,730	9,852	9,526	9,897
Foreign Service	7,994	7,724	7,769	8,169	9,023	9,162	9,931	10,579
Civil Service	5,021	4,977	5,165	5,498	6,486	6,590	6,999	7,73

Legend: Foreign Service Nationals, Foreign Service, Civil Service

* Reflects integration of employees of the United States Information Agency (USIA) and the Arms Control Disarmament Agency (ACDA).
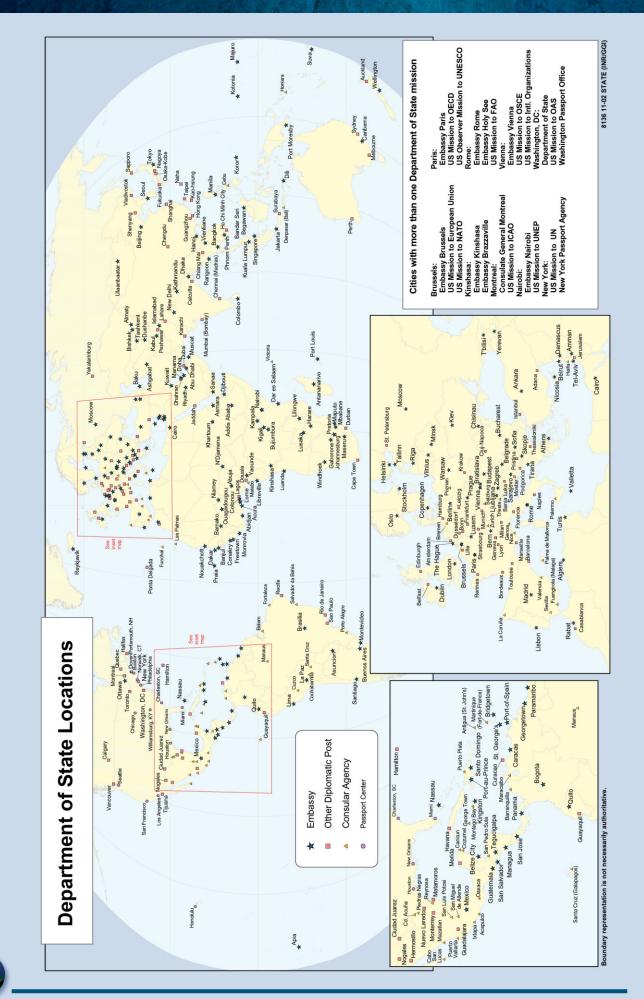
WHERE WE ARE LOCATED

As shown on the next page, the Department's embassies, consulates, and passport/visa centers are located throughout the world in support of America's foreign policy goals and to assist Americans traveling abroad.

Department of State Locations

Legend:
- ★ Embassy
- ◼ Other Diplomatic Post
- ▲ Consular Agency
- ● Passport Center

Cities with more than one Department of State mission

Brussels:
Embassy Brussels
US Mission to European Union
US Mission to NATO

Kinshasa:
Embassy Kinshasa
Embassy Brazzaville

Montreal:
Consulate General Montreal
US Mission to ICAO

Nairobi:
Embassy Nairobi
US Mission to UNEP

New York:
US Mission to UN
New York Passport Agency

Paris:
Embassy Paris
US Mission to OECD
US Observer Mission to UNESCO

Rome:
Embassy Rome
Embassy Holy See
US Mission to FAO

Vienna:
Embassy Vienna
US Mission to OSCE
US Mission to Intl. Organizations

Washington, DC:
Department of State
Washington Passport Office

8136 11-02 STATE (INR/GGI)

See inset map

Boundary representation is not necessarily authoritative.

PERFORMANCE SUMMARY AND HIGHLIGHTS

KEY FOREIGN POLICY ACHIEVEMENTS

> "The national interest of America involves more than eliminating aggressive threats to our safety. We also stand for the values that defeat violence, and the hope that overcomes hatred. We find our greatest security in the advance of human freedom."
>
> *President Bush*
> *U.S. Coast Guard Academy, New London, Connecticut*
> *May 21, 2003*

During FY 2003 the Department of State has made substantial progress in advancing the nation's foreign policy agenda as set forth in the National Security Strategy. The Department's work includes shaping the USG's response to immediate and urgent international security concerns such as the war on terrorism, curtailing the spread of weapons of mass destruction, defusing regional conflicts, and managing ongoing operations in Afghanistan and Iraq. In addition, the Department has implemented policies and programs that will bring long-term improvements in the security environment for all Americans while championing human dignity, democracy, and economic prosperity throughout the world.

In 2003, the United States faced immediate challenges in the Middle East, South Asia and East Asia. With the downfall of Saddam Hussein's regime, the United States embarked on a historic mission to transform Iraq into a prosperous, stable and peaceful democracy. We have created the Middle East Partnership Initiative (MEPI) to support democratic, economic and educational reform efforts throughout the entire region. The Department worked to implement the President's vision of peace between Israel and the Palestinian people as outlined in a performance-based roadmap to a negotiated Israeli-Palestinian settlement. The result of this shift has been significant and beneficial pressure to reform the Palestinian Authority.

In South Asia, the Department has shaped ongoing operations in Afghanistan, including helping to build a new system of governance and contributing to reconstruction projects. We have worked to promote cooperation with India, a state with the potential to become one of the great democratic powers of the twenty-first century. Innovations in the US-India relationship include our ongoing discussion about how best to improve ties in the high-tech, civilian nuclear, and space sectors. With regard to Pakistan, the US undertook a long-term commitment to the people of Pakistan centered around a proposed five-year, $3 billion assistance package to help build a stable and democratic Pakistan.

In East Asia, the Department worked to deepen its ties with China and strengthen its alliance with Japan. The creation of Six Party Talks to deal with the North Korean nuclear problem has brought together all six states of Northeast Asia in an effort to peacefully end North Korea's program; it reflects the growing partnership between the United States, its allies, China and Russia. This innovative approach may have implications for future relations among the nations of this region. We continue to work closely with the nations of Southeast Asia to support regional efforts to strengthen democratic rule, increase economic development and combat terrorism. As examples, the years 2003-2004 will see an unprecedented number of elections for new governments within the region.
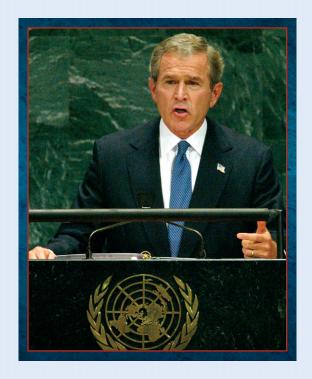
In Europe, we have accelerated the Balkan's integration into Euro-Atlantic institutions. We have supported expanding NATO's membership and accelerated its transformation by expanding NATO's operations to Afghanistan and Iraq. We have broadened our cooperation with the European Union, including advancing the Global War on Terrorism. Through the Freedom Support Act, we have promoted economic reform throughout the former Soviet Union and seen significant economic improvement throughout many countries in the region. We also continue to drive home the importance of democratization and human rights in the region and have supported numerous non-governmental organizations in this area.

The Department has strongly supported several peace processes in African states where the parties have demonstrated a willingness to reach a final conclusion, particularly in Sudan. We have played a major role in helping to bring peace and stability to Liberia and in supporting the efforts of the regional leaders to find a lasting solution to the conflict in Burundi.

The Department continues to support efforts to advance economic development and democracy promotion in Latin America. We also continue to cooperate with countries in the region against narco-terrorism, in particular in implementing its security assistance program for Colombia. In the past year, the Department initiated programs aimed at developing agendas for cooperative action with the other main centers of global power. At the United Nations, the Department successfully achieved unanimous endorsement of the Administration's broad approach to Iraq with passage of UNSC Resolution 1511.

To increase efforts to curb the proliferation of WMD, the Department has implemented the President's Proliferation Strategy Initiative (PSI) to interdict WMD activities. The United States and ten other countries agreed to and published a "Statement of Interdiction Principles" and more than 50 additional countries have indicated their support for the PSI. Following successful at-sea exercises conducted in the Coral Sea and the Mediterranean this year, the Department has scheduled a series of intrerdiction training exercises.

The Department has worked in the past year to implement the President's HIV/AIDS and Millennium Challenge Account (MCA) initiatives, both of which will help develop the capacity of lesser developed countries to address poverty and disease. The Department has also undertaken important steps to combat trafficking in persons. Congress approved the Free Trade Agreements (FTAs) with Chile and Singapore, which were negotiated by the Administration with help from State Department bureaus. FTA negotiations were launched with five Southern African Customs Union (SACU) countries (Botswana, Lesotho, Namibia, South Africa and Swaziland) as well as with the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (CAFTA).

U.S. President George W. Bush addresses the United Nations General Assembly at the UN Headquarters in New York City.
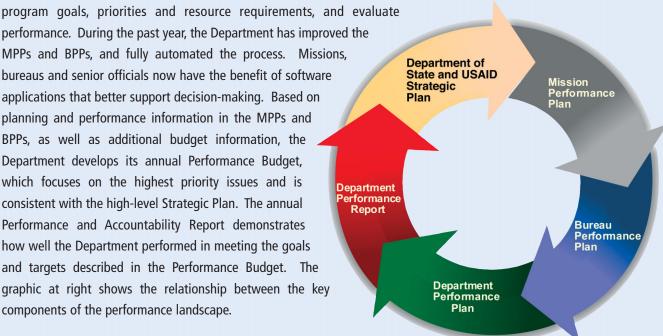© AP Photo/Jason Szene

PERFORMANCE MANAGEMENT - A LEADERSHIP PRIORITY

The Department uses strategic and performance planning to ensure the organization achieves its objectives and goals, and is committed to utilizing the funds it receives from the American people through the Congress to produce successful results. Under the strong leadership of the Secretary and Deputy Secretary, the Department also has implemented organizational innovations. For the first time, the State Department and USAID have developed and issued a joint Strategic Plan that governs the planning efforts for both agencies for fiscal years 2004-2009. This historic new Strategic Plan utilizes a revised strategic goal framework that better captures and articulates the Department's high priority goals and objectives, shortening the number of goals to better focus policy and management direction. Guided by the new Strategic Plan, the planning and resource allocation process receives the personal attention of the Deputy Secretary on an ongoing basis as he personally leads senior level Policy, Performance and Resource Reviews of all bureau performance and resource plans. Another significant organizational improvement has been the creation of joint State/USAID policy and management councils as recommended in the Strategic Plan. The Secretary's leadership in establishing these councils is ensuring the alignment of foreign policy and development assistance, and is improving the necessary management and organizational coordination and collaboration between the two agencies.

The Department's ongoing performance management process is driven by senior leadership direction and coordination. Each year, the Department's diplomatic missions and Washington-based bureaus submit Mission Performance Plans (MPPs) and Bureau Performance Plans (BPPs) respectively that describe their policy and program goals, priorities and resource requirements, and evaluate performance. During the past year, the Department has improved the MPPs and BPPs, and fully automated the process. Missions, bureaus and senior officials now have the benefit of software applications that better support decision-making. Based on planning and performance information in the MPPs and BPPs, as well as additional budget information, the Department develops its annual Performance Budget, which focuses on the highest priority issues and is consistent with the high-level Strategic Plan. The annual Performance and Accountability Report demonstrates how well the Department performed in meeting the goals and targets described in the Performance Budget. The graphic at right shows the relationship between the key components of the performance landscape.

The Department's planning documents available to the public can be found on the World Wide Web as follows:

- FY 2003 Performance and Accountability Report: http://www.state.gov/m/rm/rls/perfrpt/
- FY 2004-2009 State/USAID Strategic Plan: http://www.state.gov/m/rm/rls/dosstrat/2004/
- FY 2004 Performance Plan: http://www.state.gov/m/rm/rls/perfplan/2004/

H O W   W E   A S S E S S   P E R F O R M A N C E

Six-Tiered Methodology

The Department is committed to utilizing the funds it receives from taxpayers through the Congress to produce successful results. To assess performance, the Department employs a *performance management methodology* depicted in the pyramid below. Each of the six components of the pyramid is defined below:

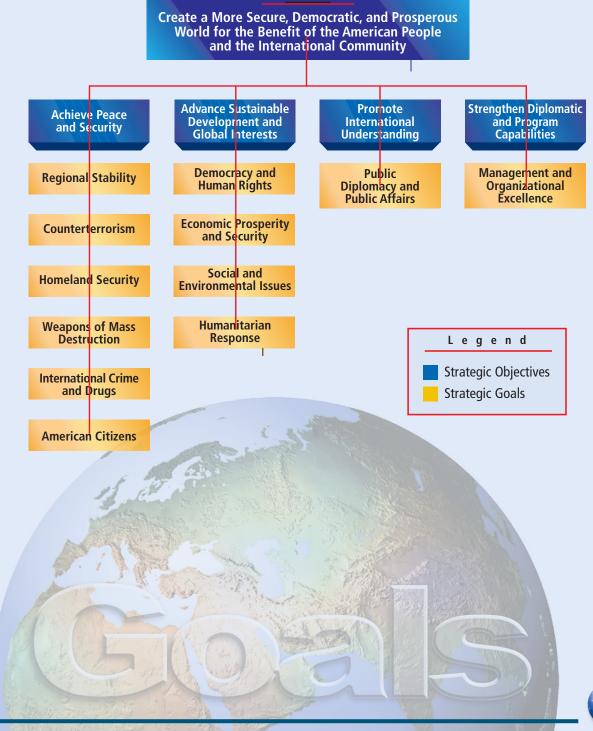|	
Strategic Objectives	High level, broad categories of action through which the Department will achieve its strategies and performance goals.
Strategic Goals	The Department's long-term goals as detailed in the Strategic Plan.
Performance Goals	The desired outcomes the Department is planning to achieve in order to attain its strategic goals. The Department has thirty-eight performance goals.
Initiatives/Programs	Specific functional and/or policy areas, including programs as defined by the OMB Program Assessment Rating Tool (PART), to which the Department of State devotes significant attention.
Performance Indicators	Values or characteristics that the Department utilizes to measure progress achieved towards stated annual performance goals. The indicators are drawn from bureau and mission performance plans.
Performance Targets	Expressions of desired performance levels or specific desired results targeted for a given fiscal year. Achievement of targets defines success. Where possible, targets are expressed in quantifiable terms. The FY 2003 Performance and Accountability Report reports on how well the Department achieved its targets.

Performance Management Model

STRATEGIC PLANNING FRAMEWORK

Strategic Objectives and Strategic Goals

Within the parameters of the performance management methodology shown on the previous page, the Department focuses its work around twelve strategic goals that capture both the breadth of its mission and its specific responsibilities. The Department's twelve strategic goals are centered around four core strategic objectives.

Mission
Create a More Secure, Democratic, and Prosperous World for the Benefit of the American People and the International Community

Achieve Peace and Security
- Regional Stability
- Counterterrorism
- Homeland Security
- Weapons of Mass Destruction
- International Crime and Drugs
- American Citizens

Advance Sustainable Development and Global Interests
- Democracy and Human Rights
- Economic Prosperity and Security
- Social and Environmental Issues
- Humanitarian Response

Promote International Understanding
- Public Diplomacy and Public Affairs

Strengthen Diplomatic and Program Capabilities
- Management and Organizational Excellence

Legend
- Strategic Objectives
- Strategic Goals

DEPARTMENT OF STATE STRATEGIC OBJECTIVES AND STRATEGIC GOALS

STRATEGIC OBJECTIVE #1
- Achieve Peace and Security -

Strategic Goal Title	Strategic Goal Description
Regional Stability	Avert and resolve local and regional conflicts to preserve peace and minimize harm to the national interests of the United States.
Counterterrorism	Prevent attacks against the United States, our allies, and our friends, and strengthen alliances and international arrangements to defeat global terrorism.
Homeland Security	Protect the homeland by enhancing the security of our borders and infrastructure.
Weapons of Mass Destruction	Reduce the threat of weapons of mass destruction to the United States, our allies, and our friends.
International Crime and Drugs	Minimize the impact of international crime and illegal drugs on the United States and its citizens.
American Citizens	Assist American citizens to travel, conduct business, and live abroad securely.

STRATEGIC OBJECTIVE #2
- Advance Sustainable Development and Global Interests -

Strategic Goal Title	Strategic Goal Description
Democracy and Human Rights	Advance the growth of democracy and good governance, including civil society, the rule of law, respect for human rights, and religious freedom.
Economic Prosperity and Security	Strengthen world economic growth, development, and stability, while expanding opportunities for U.S. businesses and ensuring economic security for the nation.
Social and Environmental Issues	Improve health, education, environment, and other conditions for the global population.
Humanitarian Response	Minimize the human costs of displacement, conflicts, and natural disasters.

STRATEGIC OBJECTIVE #3
- Promote International Understanding -

Strategic Goal Title	Strategic Goal Description
Public Diplomacy and Public Affairs	Increase understanding for American values, policies, and initiatives to create a receptive international environment.

STRATEGIC OBJECTIVE #4
- Strengthen Diplomatic and Program Capabilities -

Strategic Goal Title	Strategic Goal Description
Management and Organizational Excellence	Ensure a high quality workforce supported by modern and secure infrastructure and operational capabilities.

FY 2003 PERFORMANCE REPORTING IMPROVEMENTS

Seven Areas of Improvement

The FY 2003 Performance and Accountability Report (PAR) incorporates six major improvements that enhance the Report's usefulness for the Department's leadership as well as for external stakeholders.

1) Results Presented in Concise Strategic Goal Chapters: The Department provides a robust analysis of its FY 2003 performance within strategic goal chapters which are presented in eight sub-sections:

Sub-Section	Purpose
Public Benefit	A concise narrative describing how pursuit of the goal benefits America and the world.
Selected Performance Trends	Graphs that show key performance trends specific to each goal.
Strategic Context	A table depicting the various components (programs, lead bureaus and external partners) that contributes to accomplishment of a given goal.
Performance Summary	A graphic summary of results achieved for a goal showing both this year's and last year's results.
Resources Invested	A summary of resources (dollars and people) devoted to pursuit of the goal for both the current reporting period (FY 2003) and the previous reporting period (FY 2002). The results chart and resource investment are shown on a single page so as to provide the reader with a concise snapshot of performance and resources as related to a given strategic goal.
Illustrative Example	An example of a key FY 2003 achievement that is typical of the Department's work in support of the goal.
Performance Results	Results history/trend, together with the current rating and a short impact statement pertaining to each of the FY 2003 results achieved.
Program Evaluations and PART Reviews	Summaries of evaluations and reviews conducted on the programs cirtical to activities related to a given strategic goal.

2) Initiatives and Programs (I/Ps): The Department seeks to achieve outcomes described by performance and strategic goals. Work or activities which contribute to these goals are grouped within specific, coherent functional and/or policy areas or processes termed Initiatives/Programs. I/Ps provide greater clarity and better linkage in terms of how specific performance indicators and performance targets relate to given policies or functions.

3) Improved Performance Indicators and Targets: During FY 2003, the Department continued to evaluate and improve its performance indicators and targets. Over time, the Department has and will continue to replace weak indicators and targets with ones that measure more accurately progress on issues, provide a better measurement of success, and focus on where resources are spent. In many cases, targets and indicators have been modified or clarified, but more work needs to be done in this area. In future years, the Department will be able to present more of its performance results in quantifiable terms using outcome-oriented indicators.

This year to enable the reader to better assess and understand what is being measured, the Department has identified each of its indicators as being one of four types:

- ■ **Input:** Measures the amount of financial or human resources being devoted to a particular activity. Inputs can take the form of skills, technology and methods.

- ■ **Output:** Measures what is produced as a result of resources expended, (i.e., the input level). Outputs can take the form of products or services.

- ■ **Outcome:** Measures the result or outcome that the inputs and outputs produce.

- ■ **Efficiency:** Measures the efficiency of the result(s) achieved. Input divided by output, taking into account the level of input variables as compared to the output(s) produced.

4) Performance Rating System: Last year, the Department implemented a rating tool to assist program managers with evaluating performance results compared to targets. This analytical tool includes specific instructions and objective performance assessment parameters for program managers to use when assigning a rating for a given result. Based on these parameters, managers assign a performance rating that reflects the extent to which a given target was achieved. Since the tool is being used for the second year, the Department developed aggregate-level trend information by performance and strategic goal. This trend information is depicted in various sections of the report.

5) Redesigned Results Appendix: Results information is included in the Management Discussion and Analysis and in the strategic goal chapters in the Performance Section. However, the Report also includes a detailed and re-designed results appendix (see Appendix on CD-ROM, back cover) that provides, where applicable, for each reported 2003 result:

- ■ Initial and revised targets

- ■ Information about data reliability and data availability

- ■ A description of the nature and depth of collaboration with other agencies

6) Assessments of Program Performance: In any given fiscal year, outside organizations perform in-depth assessments of the Department's programs. These assessments benefit the Department because they provide managers with an objective assessment of performance and specific recommendations for improvement. Moreover, these data will help the Department determine whether program managers have incorporated the recommendations for improvement into their strategies for achieving performance targets. In turn, this increases program manager accountability for attaining desired performance levels.

This report contains summaries of these assessments as shown in the following appendices:

- ■ **Appendix** ■ : Completed Program Evaluations (PEs) during FY 2003 by the General Accounting Office, the Department's Inspector General or other entities beginning on page 330.

- ■ **Appendix** ■ : Summaries of OMB's FY 2004 Program Assessment Rating Tool (PART) results beginning on page 346.

7) Use of the Department's New Strategic Planning Framework and Goal Structure: The new framework, a product of many months of high-level collaboration between USAID and the Department, represents a more coherent, concise and logical reflection of how this Department and USAID organize their work towards given results/outcomes. The Department's performance reporting platform for FY 2003 and onwards, as reflected in the report, uses the new planning framework and goal structure. FY 2003 targets developed within the previous framework have been reorganized to conform to the new framework. As required, this report addresses all FY 2003 targets.

FUTURE PERFORMANCE REPORTING IMPROVEMENTS

Two Major Improvements Planned

The FY 2004 Performance and Accountability Report (PAR) will reflect two major improvements.

1) Target Weighting: Using the PAR, the Department defines success in the form of performance results as compared to targets. This year, there are more than 170 separate targets distributed throughout each of the thirty-eight performance goals each having equal weight. When developing the FY 2004 Plan last year, program managers defined the relative importance of each target in terms of its criticality to accomplishment of the corresponding performance goal. Next year, when the Department publishes the FY 2004 PAR, this information will enable the identification of those reported results which are of greater or lesser importance or value.

With this information, the Department's leadership will be able to assess, for each target, not only how well the results matched up against the targets, but how important these results are in the greater scheme of its policy and operational priorities. This will provide an additional tool to better allocate resources and assess results based on program importance.

2) Verification and Validation: Next year, program managers may be required to provide verification and validation "scores" for each of their results. Using standardized checklists currently being developed, managers will analyze each result in terms of specific verification and validation criteria. Based on how well a given result meets the criteria, a high or low verification or validation score would be assigned.

Verification and Validation of Performance Information

Congress and OMB have requested that Offices of Inspector General play a central role in the verification and validation of their respective agency's performance measures. OIG has established a performance goal to evaluate the Department's progress in measuring performance and implementing the President's Management Agenda, and currently reviews applicable and relevant performance measures in the course of its audits and evaluations. OIG will consult with the Department in identifying key measures to be verified and validated, as resources and competing priorities permit, in order to complement and avoid duplicating the Department's own verification and validation efforts. Priority will be given to performance measures related to achieving the President's Management Agenda initiatives, programs being assessed by OMB's Program Assessment Rating Tool, and areas identified by OIG as serious management and performance challenges.

OUR PERFORMANCE RATING SYSTEM

To assess FY 2003 performance results against established targets, the Department applies a results rating methodology. Program managers use this methodology to assign one of five performance ratings for a given result. Based on established parameters shown below, managers assign a performance rating that reflects the extent to which a given target was achieved.

Performance Rating	Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
Criteria	**Parameters**				
Target Status	Missed FY 2003 target by a significant margin	Missed FY 2003 target by a slight margin	Met FY 2003 target	Slightly exceeded FY 2003 target	Significantly exceeded FY 2003 target
Budget Status	Spent significantly over budget	Spent slightly over budget	Spent on budget	Spent slightly under budget	Spent significantly under budget
Timeliness	Missed most critical deadlines	Missed a few critical deadlines	Met all critical deadlines	Met some critical deadlines early	Met most critical deadlines early
Impact on Future Operations	Significantly impairs program's ability to achieve future years' performance targets, requiring major downward revisions to future targets	Slightly impairs program's ability to achieve future years' performance targets, requiring minimal downward revisions to future targets	No change in program's ability to achieve future years' performance targets	Slightly improves program's ability to achieve future years' performance targets, requiring minimal upward increases to future targets	Significantly improves program's ability to achieve future years' performance targets, requiring major upward increases to future targets

This methodology represents an important step toward using a standard tool to evaluate the Department's work. However, to correctly interpret the numerical analysis of the report, it is important to note the following:
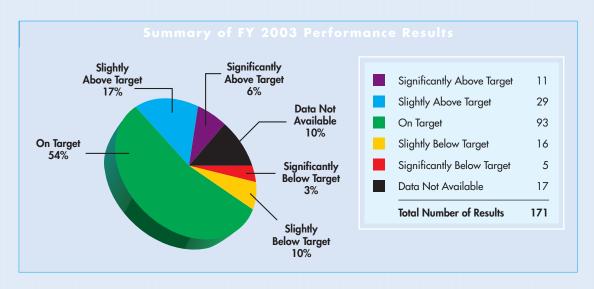
- **Target Weights:** The FY 2003 targets for each annual goal were weighted equally. Beginning in FY 2004, the Department intends to assign a weight to each performance target and apply those weights to the performance results.

- **No Data Available:** The Department could not report some performance results. In the majority of cases this was due to lagging, calendar year-based data.

SUMMARY OF FY 2003 PERFORMANCE RESULTS

Summary of All Results

The following pie chart shows the ratings distribution for all performance results reported in FY 2003. As shown below, 77% of the results were "on target" or above, meaning performance results met or exceeded performance targets. This represents an improvement over FY 2002, when 68% of results met or exceeded performance targets.

Summary of FY 2003 Performance Results

Significantly Above Target	11
Slightly Above Target	29
On Target	93
Slightly Below Target	16
Significantly Below Target	5
Data Not Available	17
Total Number of Results	**171**

Summary of Strategic Goal Results

This table shows for each strategic goal the average of the performance ratings for all reported results.

	Strategic Goal	Average Performance Rating[1]		Change From Last Year
		FY 2002	**FY 2003**	
1	Regional Stability	Slightly Below Target	Slightly Below Target	↔
2	Counterterrorism	On Target	On Target	↔
3	Homeland Security	Slightly Below Target	On Target	↑
4	Weapons of Mass Destruction	On Target	On Target	↔
5	International Crime and Drugs	Slightly Below Target	On Target	↑
6	American Citizens	On Target	Slightly Below Target	↓
7	Democracy and Human Rights	Slightly Below Target	Slightly Below Target	↔
8	Economic Prosperity and Security	Slightly Below Target	On Target	↑
9	Social and Environmental Issues	On Target	On Target	↔
10	Humanitarian Response	On Target	On Target	↔
11	Public Diplomacy and Public Affairs	On Target	On Target	↔
12	Management and Organizational Excellence	On Target	On Target	↔

[1] Based on the average of all performance result ratings within a strategic goal.

Summary Performance Goal Results

The table below provides performance results for each of the Department's FY 2003 performance goals. The inverted black triangle represents the average of all performance ratings assigned to results associated with the Performance Goal. The numbers below the rating scale show how the ratings were distributed among the reported FY 2003 results. In addition, for comparison purposes, the FY 2002 performance rating average is represented by the inverted gray triangle.

Strategic Goal	Performance Goal[1] (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results
Regional Stability	Close, strong, and effective U.S. ties with allies, friends, partners and regional organizations. *4 Results*	Significantly Below Target: 1; On Target: 3
	Existing and emergent regional conflicts are contained or resolved. *4 Results*	Significantly Below Target: 1; On Target: 2; Significantly Above Target: 1
Counterterrorism	Coalition partners identify, deter, apprehend, and prosecute terrorists. *4 Results*	Significantly Below Target: 1; On Target: 1; Above Target: 1; Significantly Above Target: 1
	U.S. and foreign governments actively combat terrorist financing.[2] *5 Results*	Significantly Below Target: 1; On Target: 2; Above Target: 1; Significantly Above Target: 1
	Coordinated international prevention and response to terrorism, including bioterrorism.[2] *4 Results*	Significantly Below Target: 1; On Target: 2; Above Target: 1
	Stable political and economic conditions that prevent terrorism from flourishing in fragile or failing states.	*USAID addresses this performance goal.[3]*
Homeland Security	Denial of visas to foreign citizens who would abuse or threaten the U.S. while facilitating entry of legitimate applicants. *4 Results*	On Target: 1 (Slightly Below Target: 1, On Target: 2, Significantly Above Target: 1)
	Implemented international agreements stop the entry of goods that could harm the U.S., while ensuring the transfer of bona fide materials.[2] *5 Results*	On Target: 5
	Protection of critical physical and cyber infrastructure networks through agreements and enhanced cooperation.[2] *1 Result*	Significantly Above Target: 1

Scale header: Significantly Below Target | Slightly Below Target | On Target | Above Target | Significantly Above Target

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[1] The chart depicts data for "reported results" (i.e., targets for which data were available). In some instances, for a given performance goal, the number of reported results might be less than the number of targets because data was unavailable to produce a results rating.

[2] No gray triangle is shown for this performance goal because this goal was new for FY 2003.

[3] Department of State and USAID share the same goal framework.

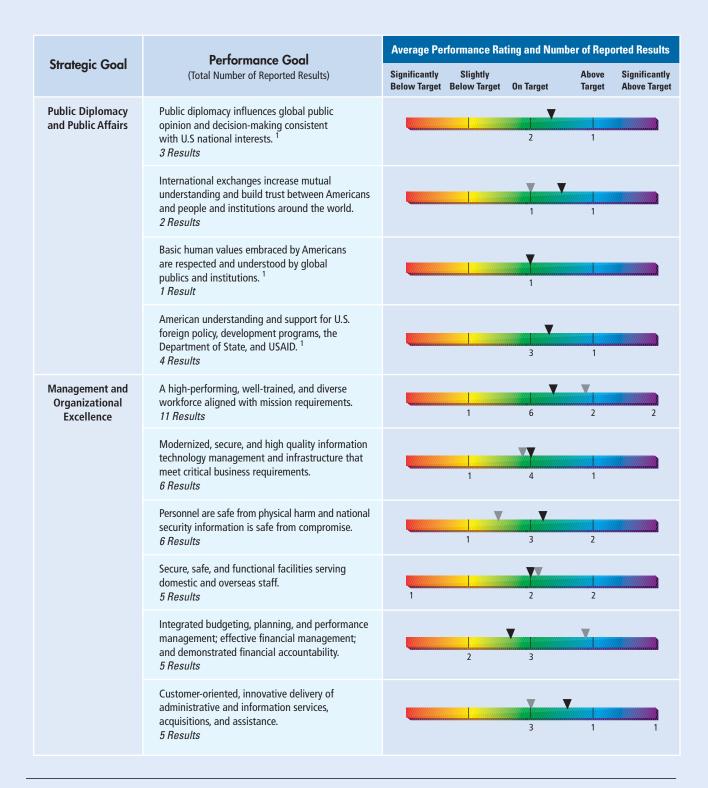| Strategic Goal	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results				
		Significantly Below Target	Slightly Below Target	On Target	Above Target	Significantly Above Target
Weapons of Mass Destruction	Bilateral measures, including the promotion of new technologies, combat the proliferation of WMD and reduce stockpiles. *6 Results*			4	2	
	Strengthened multilateral WMD agreements and nuclear energy cooperation under appropriate conditions. *6 Results*		1	3	2	
	Verification integrated throughout the negotiation and implementation of nonproliferation and arms control agreements and commitments, and rigorous enforcement of compliance with implementation and inspection regimes. *5 Results*		1	4		
International Crime and Drugs	International trafficking in drugs, persons, and other illicit goods disrupted and criminal organizations dismantled. *4 Results*		2	1		1
	States cooperate internationally to set and implement anti-drug and anti-crime standards, share financial and political burdens, and close off safe-havens through justice systems and related institution building. *4 Results*			2	2	
American Citizens	U.S. citizens have the consular information, services, and protection they need to reside, conduct business, or travel abroad. *3 Results*	1		2		
	Effective and timely passport issuance, with document integrity assured. *2 Results*			2		
Democracy and Human Rights	Measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices. *2 Results*		1	1		
	Universal standards protect human rights, including the rights of women and ethnic minorities, religious freedom, worker rights, and the reduction of child labor. *8 Results*		2	6		

Strategic Goal	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results
		Significantly Below Target — Slightly Below Target — On Target — Above Target — Significantly Above Target
Economic Prosperity and Security	Institutions, laws, and policies foster private sector-led growth, macroeconomic stability, and poverty reduction. *1 Result*	Significantly Below Target: 1
	Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system. *7 Results*	On Target: 5; Above Target: 2
	Secure and stable financial and energy markets. [1] *2 Results*	On Target: 1; Above Target: 1
	Enhanced food security and agricultural development.	*USAID addresses this performance goal* [2]
Social and Environmental Issues	Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis. *8 Results*	Slightly Below Target: 1; On Target: 6; Above Target: 1
	Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management. *9 Results*	On Target: 7; Above Target: 2
	Broader access to quality education with emphasis on primary school completion.	*USAID addresses this performance goal* [2]
	Effective and humane international migration policies and systems.	*At the time the Department was developing FY 2003 targets, this performance goal did not exist and no targets were developed. Therefore, for FY 2003 performance reporting purposes, no results are being reported. Targets have been developed for FY 2004 and beyond. Results will be reported in future performance reports.*
Humanitarian Response	Effective protection, assistance, and durable solutions for refugees, internally displaced persons, and conflict victims. *7 Results*	Significantly Below Target: 1; On Target: 3; Above Target: 3
	Improved capacity of host countries and the international community to reduce vulnerabilities to disasters and anticipate and respond to humanitarian emergencies. *1 Result*	Slightly Below Target: 1

[1] No gray triangle is shown for this performance goal because this goal was new for FY 2003.

[2] Department of State and USAID share the same goal framework.

Strategic Goal	Performance Goal (Total Number of Reported Results)	Average Performance Rating and Number of Reported Results

Column scale headings: Significantly Below Target · Slightly Below Target · On Target · Above Target · Significantly Above Target

Strategic Goal	Performance Goal (Total Number of Reported Results)	Ratings (number of reported results by category)
Public Diplomacy and Public Affairs	Public diplomacy influences global public opinion and decision-making consistent with U.S national interests. [1] *3 Results*	On Target: 2; Above Target: 1
	International exchanges increase mutual understanding and build trust between Americans and people and institutions around the world. *2 Results*	On Target: 1; Above Target: 1
	Basic human values embraced by Americans are respected and understood by global publics and institutions. [1] *1 Result*	On Target: 1
	American understanding and support for U.S. foreign policy, development programs, the Department of State, and USAID. [1] *4 Results*	On Target: 3; Above Target: 1
Management and Organizational Excellence	A high-performing, well-trained, and diverse workforce aligned with mission requirements. *11 Results*	Slightly Below Target: 1; On Target: 6; Above Target: 2; Significantly Above Target: 2
	Modernized, secure, and high quality information technology management and infrastructure that meet critical business requirements. *6 Results*	Slightly Below Target: 1; On Target: 4; Above Target: 1
	Personnel are safe from physical harm and national security information is safe from compromise. *6 Results*	Slightly Below Target: 1; On Target: 3; Above Target: 2
	Secure, safe, and functional facilities serving domestic and overseas staff. *5 Results*	Significantly Below Target: 1; On Target: 2; Above Target: 2
	Integrated budgeting, planning, and performance management; effective financial management; and demonstrated financial accountability. *5 Results*	Slightly Below Target: 2; On Target: 3
	Customer-oriented, innovative delivery of administrative and information services, acquisitions, and assistance. *5 Results*	On Target: 3; Above Target: 1; Significantly Above Target: 1

[1] No gray triangle is shown for this performance goal because this goal was new for FY 2003.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

During FY 2003, the Department responded on many levels to the many challenges the United States is facing. Highlights of the most important results and continuing challenges are shown below by strategic goal:

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges
REGIONAL STABILITY	
◆ The U.S. led unprecedented international coalitions to remove terrorist regimes in Afghanistan and Iraq.	◆ Facilitate reconstruction and establishment of a democratic political, social and economic system in Iraq.
◆ Transformation of NATO through new capabilities, new members, and new relationships to meet the challenges of the 21st century.	◆ Pursue the Road Map solution to the Israeli-Palestinian problem.
◆ Participation by other countries in UN-sponsored and other international peacekeeping operations.	◆ Improve the status of relations between Pakistan and India on Kashmir.
◆ China hosted and facilitated six-party talks between the U.S. and North Korea. China's ongoing efforts have been key to North Korea agreeing to future rounds of discussion.	
COUNTERTERRORISM	
◆ The Top Officials (TOPOFF II) exercise, the first major exercise for the new Department of Homeland Security, was significantly enhanced over TOPOFF I (May 2000) by emphasizing the vital foreign policy implications of major domestic terrorist incidents.	◆ Further expand cooperative R&D work with existing foreign partners (UK, Canada, Israel), and engage at least two additional foreign partners in programs of cooperative R&D that benefit all nations and support US objectives in the Global War on Terrorism.
◆ The Technical Support Working Group (TSWG) completed work on and fielded a number of products that substantially upgraded operational capabilities of the first responder communities throughout the U.S. as well as the security posture of USG departments and agencies.	◆ Program expansion can only be accomplished with additional financial resources which can be used to leverage additional funding from our U.S. and foreign partners.
HOMELAND SECURITY	
◆ Signed a Memorandum of Understanding with the Department of Homeland Security setting the terms under which officers of the two Departments will work together in the granting or refusal of visas.	◆ The USA Patriot Act requires that U.S. visas use biometric identifiers by October 26, 2004. The Department began phased implementation of biometric (fingerprint) collection in September 2003. All posts will be collecting biometrics by October 2004.
◆ Greatly increased the percentage of nonimmigrant visa applicants interviewed worldwide. New regulations implemented which limit waiver of personal appearance for nonimmigrant visa applicants to only a few categories of exceptions, such as diplomats, children, and the elderly.	◆ Continue to expand datashare opportunities with federal agencies, maximizing the value of consular data to the USG while developing procedures to ensure proper use of this information.
◆ Mandated a special worldwide review of management controls in September 2002 and again in August 2003. This is now being made a required annual report for all consular sections.	◆ Continue working on a number of programs with Canada and Mexico as part of the U.S.-Canada Smart Border Action Plan (30 point plan) and U.S.-Mexico Border Partnership (22 point plan). As concerns the movement of people, the Department is working on agreements to share Advance Passenger Information/Passenger Name Records for airline passengers entering the U.S., Canada, or Mexico. The Department is also working with both these countries (NEXUS with Canada and SENTRI with Mexico) to expand frequent traveler programs to allow faster crossings for bona fide travelers.
◆ Changed the basic consular training course to strengthen material on fraud, malfeasance, ethics, and terrorism in addition to new material on interviewing techniques, accountability and management issues, and computer systems security. The time devoted to interviewing skills training in the Basic Consular Course has increased significantly, from the pre-9/11 6½ hours to 16 hours.	
◆ Began collecting biometrics from non-immigrant visa applicants at San Salvador, Brussels, Frankfurt and Guatemala City.	

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges

WEAPONS OF MASS DESTRUCTION

Results	Challenges
◆ The Department has led the interagency effort to implement the Proliferation Security Initiative (PSI). The eleven PSI-participant nations have agreed to move rapidly on direct measures to impede trafficking in weapons of mass destruction, missiles and related items and have agreed on a set of principles that can guide interdiction efforts.	◆ Biological Weapons Convention (BWC) States Parties need to take actions to improve their legal structures and enforcement against biological weapons activities, and coordinate with other BWC States Parties in controlling the biological weapons threat.
◆ Entry into force of the Moscow Treaty, and initiation of U.S.-Russian working groups to exchange information and foster transparency regarding offensive nuclear forces and missile defense.	◆ Agreement on a set of principles that can guide interdiction efforts.
◆ Significant recovery of the Organization for the Prohibition of Chemical Weapons from financial and administrative crises of previous years, giving strong hope that it will fully carry out its responsibilities for implementing the Chemical Weapons Convention.	◆ Meeting the IAEA Statute's obligation to find Iran in noncompliance to the UN security council. ◆ Continuing to build international consensus that the suspension of Iran's enrichment and reprocessing activities must transition into permanent abandonment of those activities.
◆ Impeded Iran's nuclear weapons program by locking in international consensus that Iran's clandestine nuclear activities are of great concern; Led the IAEA Board of Governors in September 2003 to adopt a resolution giving Iran an October 31 deadline to fully cooperate with IAEA investigations and answer all outstanding IAEA questions about its nuclear activities, as well as to sign and implement an Additional Protocol and to suspend enrichment related and reprocessing activity. Strengthened the international consensus against cooperation with Iran until all safeguards questions are resolved.	◆ Maintaining intense IAEA and international scrutiny of Iran's nuclear activities. ◆ Ensuring that Iran sees no "carrots" for ending its sensitive nuclear pursuits until cessation of such activities can be fully verified.

INTERNATIONAL CRIME AND DRUGS

Results	Challenges
◆ Projected reduction in coca cultivation in Colombia, for second year in a row.	◆ Domestic – sometimes violent – opposition to coca eradication programs in Peru and Bolivia threaten to undercut government resolve in carrying out eradication programs that have proved successful in the past.
◆ Completion of agreement, including new safety rules, with Colombia to reestablish the Air Bridge Denial Program. Negotiations opened with Peru to establish a similar program.	◆ The inability of the Afghan national government to extend its security and law enforcement authority to outlying provinces continues to undercut Afghan and international efforts to curb opium poppy cultivation and heroin trafficking.
◆ Colombian Government security presence extended more than 150 of 160 municipalities previously devoid of any law enforcement presence. More than eighty Colombian nationals extradited to U.S. on narcotics or money laundering charges.	◆ Lack of absorptive capacity and political will continue to hamper and slow the development of viable money-laundering regimes in many priority terrorist-financing countries.
◆ UN Convention on Transnational Organized Crime and Supplemental Protocol on Trafficking in Persons entered into force. Agreement reached on UN Convention Against Corruption, with signing ceremony set for December.	◆ More generally, lack of institutional capacity in many key countries – some of them havens for international crime – means that strengthening justice sectors will be a long and slow process.
◆ Assessments completed and assistance initiated or continued to 16 of 19 priority countries most vulnerable to terrorist financing. The multilateral Financial Action Task Force "graduated" five countries from its "blacklist" of Non-Cooperating Countries and Territories because of improvements in their anti-money laundering laws and practices.	◆ Drug traffickers and other international crime groups continue to be exceedingly adept at making use of the latest technological advances and equipment to protect and advance their operations.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges
AMERICAN CITIZENS	

◆ The Passport Records Imaging System Management (PRISM) database has been deployed at all domestic passport facilities. Users can now immediately retrieve electronic records within minutes of passport issuance.

◆ Implemented Passport Information Electronic Retrieval System (PIERS), an improved data management system that allows approved users worldwide to access passport records (through OpenNet). This system will also facilitate interagency data sharing as proper data sharing agreements are formulated.

◆ The web site for international travelers, travel.state.gov, recorded 198.5 million hits in FY 2003, averaging almost 544,000 hits per day, compared to 128 million hits with a daily average of 347,254 in FY 2002. Enhancements to the web site include an automatic date/time confirmation that travel safety information is current and additional electronic forms.

◆ Development/deployment of a new Intelligent Passport that contains an embedded Integrated Circuit that will carry biometric data.

◆ Implementation of the Intercountry Adoption Act.

◆ Preparations for requirement that U.S. citizens have a U.S. passport for all travel within the Western Hemisphere.

DEMOCRACY AND HUMAN RIGHTS

◆ Achieved G-8 commitment to increase international cooperation to combat corruption, deny safe haven to corrupt officials, those who corrupt them, their dependents, and to identify and repatriate funds stolen through acts of corruption.

◆ Continued implementation of the Inter-American Anticorruption Convention (IACAC) Follow-Up Mechanism. The IACAC is one of the most important, and the largest of the regional anticorruption mechanisms.

◆ Completed negotiations of a comprehensive United Nations Anticorruption Convention.

◆ For the first time, comprehensive programs in China were supported through DRL's Human Rights and Democracy Fund to press for structural reforms in the areas of rule of law and democracy.

◆ Public-private partnerships and voluntary codes of conduct advanced respect for rule of law and worker rights. Worker rights provisions were negotiated for free trade agreements. Worker organizations multiplied in Middle East.

◆ Community of Democracies established as viable multilateral instrument for consolidating democracy. Advances in democracy are now backed by institutions for mutual support, in several regions, to cope with potential crises in democracy.

◆ Accelerating the rate of implementation of global anticorruption and transparency commitments such as those adopted in the Global Forum on Fighting Corruption, regional mechanisms, and treaty law.

◆ Work continues in pressing for positive results in the make-up of the UN Commission on Human Rights to enable serious resolutions and effective measures addressing the worst human rights violations.

◆ Regional capacities to deal with recalcitrant regimes (e.g., Burma, Zimbabwe, Cuba) are still growing.

◆ Additional steps to increase interagency coordination and information sharing are necessary to sharpen global strategies and individual program implementation.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges

ECONOMIC PROSPERITY AND SECURITY

Results

- Began the reconstruction of Iraq and Afghanistan.

- Promoted regional and global economic growth through enhanced growth of financial markets and international cooperation on assistance programs.

- Developed diversified, reliable supplies of energy to reduce dependence on any one source.

- Managed economic aspects of U.S. engagement with the frontline states in the battle to defeat terrorism.

- Protected and expanded transportation and communications networks through international cooperation on cargo and passenger security measures, Open Skies agreements, and telecommunications negotiations.

- Coordinated international efforts to block terrorists' funds and terrorists' ability to use the global financial system.

- Concluded and obtained ratification by Congress of Free Trade Agreements (FTAs) with Singapore and Chile.

Challenges

- Managing a growing workload on an increasing number of issues related to economic prosperity and security including terrorist financing, post-conflict economic reconstruction and trade negotiations.

- Resolving differences with 33 hemispheric partners over desired scope of Free Trade Area of the Americas Agreement by January 2005 deadline. Most difficult issues with Brazil, other Mercosur members and Caricom countries.

- Managing workload inherent in stepped up negotiation of Bilateral Free Trade Agreements.

- Resolving differences blocking resumption of Doha Round WTO negotiations among WTO members regarding Singapore issues (investment, services, etc), agricultural subsidies and other issues.

SOCIAL AND ENVIRONMENTAL ISSUES

Results

- Thanks to the Global Health Security Action Group and other bioterrorism activities, countries can take more appropriate action in case of a bioterrorism attack.

- Progress continues in the battle against HIV/AIDS. Diplomatic outreach efforts have mobilized political leadership around the world, a basic step in the fight.

- Key conservation management agreements were renegotiated to include forward-looking provisions of current international fisheries law and practice.

- CSD reforms are a leading example of UN reform efforts and are helping to catalyze a shift in emphasis from norm-setting toward implementation of sustainable development.

- A range of cooperative activities in the areas of climate change and clean energy technologies initiated or advancedwith 13 bilateral partners and through multilateral initiatives.

- The U.S. hosts ministerial-level Earth Observation Summit to promote the development and financial support of an integrated and sustained earth observation system, designed to link climate, terrestrial and oceans observing datasets.

- Significant progress is made through DOS-led White Water to Blue Water Initiative to energize partnerships to address integrated approaches to watershed and marine ecosystems management in the Caribbean.

Challenges

- The worst of the AIDS epidemic lies ahead. Implementing the President's Emergency Plan will help alleviate the effects.

- Most countries have inadequate systems to detect or respond to either natural or deliberate (terrorist) outbreaks of disease and climate forecasts which can influence such things as the vulnerability of living resources and the likelihood of disease outbreaks.

- Illegal, unregulated, and unreported (IUU) fishing activities and increasing or transferred fishing vessel capacity continues to undermine efforts to manage fisheries resources.

- Maintain focus on promoting good governance, economic growth with emphasis on poverty reduction and investment in people as best way to address social needs in the Western Hemisphere. Ensure that these approaches form centerpiece of January 2004 Special Summit of the Americas.

- Science and Technology agreements need to better serve the interagency and broader scientific community by addressing such issues as intellectual property, liability, and taxation issues in practical terms and in streamlining the process for authorizing negotiations of agency-level agreements.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges
HUMANITARIAN RESPONSE	

Results

◆ Contingency planning and effective response averted a humanitarian disaster in Iraq. The Department's work and participation in interagency efforts ensured that adequate food, medical supplies and other humanitarian aid were provided to populations in need.

◆ The Department supported operations to assist refugees' return and reintegration to Afghanistan, and Angola among other countries. Over 520,000 refugees returned to Afghanistan and roughly 70,000 refugees returned to Angola in FY 2003.

◆ The Department funded an expanded UNHCR capacity to identify and refer refugees for resettlement to the United States, which is expected to result in greater refugee admissions.

◆ The World Food Program's efficient and coordinated response to the food crisis in southern Africa averted starvation.

Challenges

◆ Lack of security continues to put at risk refugees and those who assist them.

◆ Security challenges in overseas refugee processing locations will continue to impede USG efforts to maintain a robust resettlement program.

◆ Information on refugee health remains difficult to collect and analyze. The Department will continue to support collaborative efforts to standardize methodology and improve collection of data on mortality and nutrition in refugee situations, humanitarian emergencies and other conflict settings.

◆ Despite a strong U.S. commitment, contributions from other donors perennially fall short of world food needs. The Department will continue efforts to mobilize donor contributions to the World Food Program, including "twinning," an approach that matches non-traditional donors of cash with non-traditional donors of food.

PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

Results

◆ President Bush delivered the 213th State of the Union address before the largest worldwide audience ever on January 28, 2003. Tens of millions of people around the globe were able to have access to the speech live on television, and on the Internet, in multiple languages.

◆ Since its inception in 2001, the Department's Chinese-language Internet service, Meiguo Cankao (MCGK), has firmly established itself as the authoritative source on America and its policies and a main source of world news for Chinese readers. MCGK gets an average of 20,000 requests for pages daily and is read by the major Chinese sites. MCGK's material invariably appears with attribution, notable given the tightly controlled nature of the official Chinese news environment.

◆ One hundred thirty one students from communities at risk in countries of priority in the War on Terrorism are studying in U.S. high schools under the Partnerships for Learning YES Youth Exchange.

◆ As of July 2003, the Department's publication, A Responsible Press Office: An Insider's Guide, has been distributed in 18 languages. Presidential/prime ministerial spokespersons have reported using the publication with staffs, in seminars and in organizing their offices. One prime minister began open discussions with the press after reading the volume and a presidential spokesperson in another reported the publication "saved our lives."

Challenges

◆ A major effort is needed for more effective communication with the Muslim and Arab worlds and to counter the impact of hostile influences.

◆ Anti-American editorial slants in much of the Arabic press make it difficult to get out our message. Pan-Arab satellite television has become the most important element in forming Arab public opinion, but anti-American commentary dominates many of the stations. We are placing greater emphasis on placement of positive articles on the U.S. and gaining more access for American speakers on the air in order to give more objective exposure to the general public on USG policies.

◆ The Department needs to augment current public diplomacy evaluation techniques, and rely more on expert professional resources to help base our programs on solid public opinion attitudes and information. A culture of measurement must reach all public diplomacy structures.

◆ Border and visa security issues, SARS and the War in Iraq affected exchanges in 2003 and are expected to continue as challenges to the exchange of persons in 2004.

◆ The Department will continue to intensify its reach to younger and wider audiences throughout the world.

MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

Results	Challenges
MANAGEMENT AND ORGANIZATIONAL EXCELLENCE	

Results

◆ Eighty percent of our diplomatic missions overseas that were at low and medium threat security levels have been brought to a high threat defensive posture thereby affording the Department's employees with greater protection.

◆ The Department has tripled the number of background re-investigations completed annually to ensure the integrity of our workforce and protect national security information.

◆ For the first time in several years the Department has reduced hiring deficits in Foreign Service career tracks and has robust pipelines for future hiring.

◆ The Civil Service hiring process has been augmented with creative pipeline type approaches that seek to minimize staffing gaps in those skill areas that have frequent vacancies.

◆ The Department's network availability was increased to 98%, providing more reliable communications to Department employees worldwide than ever before.

◆ The implementation of the OpenNetPlus program accomplished the Secretary's highest IT priority plus providing worldwide desktop Internet access for over 43,000 Department users.

Challenges

◆ Sustain recent improvements and support the expansion of critical security initiatives around the world.

◆ The Department worked with OMB to develop a capital replacement program that requires agencies with an overseas presence to pay their fair share of urgent, security-driven capital construction projects undertaken to replace embassy and consulate compounds at the most vulnerable posts thereby encouraging rightsizing and accelerating construction.

ILLUSTRATIVE EXAMPLES OF SIGNIFICANT ACHIEVEMENTS

STRATEGIC GOAL #1: REGIONAL STABILITY

Man-Portable Air-Defense Systems (MANPADS)

The State Department led the international effort to prevent terrorists from acquiring MANPADS, more commonly known as shoulder-fired missiles, that could be used to shoot down civilian airliners and government aircraft. Under U.S. leadership the G-8 agreed to: strengthen export controls (including limiting transfers to those between governments); research access controls for newly produced MANPADS; strengthen security of government stocks; and destroy those that are surplus to defense needs. The Department is leading a similar effort in the Wassenaar arrangement, which will affect most producers of MANPADS. We are also working closely with Russia to support their effort to gain control of those MANPADS in the CIS. The State Department secured commitments from six countries to destroy almost 9,500 MANPADS (approximately 1% of the MANPADS that have ever been produced). Almost 1,200 were destroyed by the end of FY 2003.

A member of the NATO-led peacekeeping force in Bosnia detonates a controlled explosion to destroy six shoulder launched anti aircraft missiles in a remote mountain area near Sarajevo. The United States has asked all of its friends to dispose of obsolete MANPADS because they pose a serious threat to civil and military aviation in the wrong hands.   © AP Photo

STRATEGIC GOAL #2: COUNTERTERRORISM

Terrorist Interdiction Program (TIP)

During FY 2003, 12 nations expanded their partnership with the United States in the global fight against terrorism by agreeing to accept TIP to strengthen control of their air, land and sea ports of entry. By assisting these nations to secure their borders, TIP has enhanced the security of all Americans, including those who live and travel abroad. TIP has broadened cooperation and strengthened a shared sense of urgency between the United States and these nations in the effort to defeat international terrorism, and in several cases, has served as the cornerstone of an evolving comprehensive mutual counterterrorism strategy. Finally, the information provided by nations operating TIP has significantly broadened our understanding of terrorist movements and methods.

Philippine military officials ride on a combat boat during a demonstration in Manila Bay. The new boats are part of the Philippine Navy's modernization program to better fight terrorists, poachers, pirates and drug smugglers. The Philippines is one of 12 countries to partner with the United States in the Terrorist Interdiction Program.   © AP Photo

STRATEGIC GOAL #3: HOMELAND SECURITY

Container Security Initiative

The Department spearheaded global efforts to protect transportation networks through stronger shipping and aviation security rules. Nineteen of the 20 largest world ports committed to participate in the Container Security Initiative (CSI). In addition, the program expanded to other strategic ports including Malaysia and South Africa. CSI is now operational in sixteen ports (as of September 30, 2003) and at least two countries, Canada and Japan, have utilized the reciprocal aspects of the program to have their customs officials present at U.S. ports to observe cargo bound for their countries.

Department of State Photo

STRATEGIC GOAL #4: WEAPONS OF MASS DESTRUCTION

Cooperation with Russia on New Strategic Framework
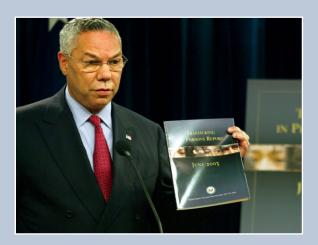
In June 2003, the U.S.-Russian Treaty on Strategic Offensive Reductions entered into force, reflecting the dramatic shift from Cold War rivalry to partnership based on the principles of mutual security, trust, openness, and cooperation. The Treaty binds the U.S. and Russia to reduce the levels of strategic nuclear warheads by the end of 2012 to between 1,700 and 2,200 - about one-third of current levels.

© AP Photo

STRATEGIC GOAL #5: INTERNATIONAL CRIME AND DRUGS

Trafficking in Persons

There are an estimated 800,000 to 4 million persons trafficked annually across and within international borders. Approximately 20,000 victims of trafficking are brought into the United States each year. The Department and a consortium of U.S. NGOs hosted an innovative international conference on best practices, bringing together 400 NGO and government representatives who are on the frontlines of the war to combat slavery. Since the conference, two countries are now working collaboratively on trafficking cases and participants from the Western Hemisphere have formed a listserv on the Internet as a means of exchanging information. The Department significantly strengthened the annual Trafficking in Persons report by adding 26 new countries, incorporating new law enforcement data, and adding new features, such as victims stories and color photographs, sections on best practices, areas for improvement, and special cases, and a special matrix of relevant international conventions. Department funding facilitated the development of a regional action plan on combating trafficking in persons that was adopted by the member states of the Economic Community of West African States (ECOWAS). ECOWAS countries are in the process of developing national action plans, revising their legislation and identifying national points of contact.

Secretary of State Colin Powell holds up the State Department's third annual report on human trafficking during a news conference in Washington. Fifteen countries, including U.S. allies Greece and Turkey, have made no significant efforts to stop trafficking in humans and may face sanctions, the State Department report said.
© AP Photo/Charles Dharapak

STRATEGIC GOAL #6: AMERICAN CITIZENS

International Child Abduction

In January, Assistant Secretary for Consular Affairs Harty traveled to Saudi Arabia, Lebanon and Syria and raised the issue of international parental child abduction with senior government officials in each country. Since then ten Americans involved in such situations have been able to return to the United States from those countries. She visited Saudi Arabia again in April to emphasize the same concerns. Department officials meet regularly with Saudi officials, both in Washington and Riyadh, to seek solutions in specific cases and to find more systematic ways to address the problem of international parental child abduction. The Bureau of Consular Affairs hosted "Town Hall" meetings in February and July that were attended by over 75 left-behind parents. Parents identified ways the Department can serve them better.

U.S. Assistant Secretary for Consular Affairs Maura Harty visits American citizen children overseas (shown with their grandmother), on behalf of their mother in the U.S., from whom the children had been abducted at an early age by her foreign ex-husband.   Department of State Photo

STRATEGIC GOAL #7: DEMOCRACY AND HUMAN RIGHTS

Anti-Semitism in Europe

The Department led the effort in the Organization for Security and Cooperation in Europe to hold a conference on Anti-Semitism. The U.S. delegation was led by Rudolph Giuliani and included members of Congress and NGO leaders. The gathering defined anti-semitism as a human rights issue and tasked the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) to serve as a collection point for hate crime information and statistics and to promote best practices in the fight against intolerance. The German government will host a follow-up meeting in Berlin next April. No regional or international organization had previously treated anti-semitism as a human rights matter

Former New York Mayor and Chairman of the U.S. delegation Rudolph Giuliani, Federal Government Commissioner for Human rights, Policy and Humanitarian Aid Claudia Roth from Germany and Head of the Albanian Delegation Zef Mazi, from left, participate in a conference on anti semitism organized by the Organization for Security and Cooperation in Europe (OSCE) at Vienna's Hofburg palace.   © AP Photo/Ronald Zak

STRATEGIC GOAL #8: ECONOMIC PROSPERITY AND SECURITY

Terrorism Financing

Jimmy Gurule, left, Under Secretary for Enforcement, U.S. Department of the Treasury, testifies during a Senate Judiciary Committee hearing on terrorism financing, in Washington.
© AP Photo/Ken Lambert

State, Treasury, Justice, FBI, the Department of Homeland Security and other agencies all work together in the fight against terrorism finance. The U.S. supported the submission by many countries of al-Qaida-linked names for inclusion in the UN asset-freeze list, requiring all countries to act against these names. We have taken action — including asset-freezing — against charities supporting terrorism, creating an incentive for charities worldwide to ensure their funds are not being diverted to terrorist organizations. In addition many essential complementary actions have also been taken. These include the building of an international alliance against terrorism, training and technical assistance to help countries develop the capacity to fight terrorist financing, the development of international standards, and the exploitation of intelligence. All of these efforts work together to protect the United States and our allies from the scourge of terrorism now and in the future.

STRATEGIC GOAL #9: SOCIAL AND ENVIRONMENTAL ISSUES

The President's Emergency Plan for AIDS Relief

President Bush and Secretary Powell at a State Department Bill signing ceremony for the U.S. Leadership Against HIV/AIDS, Tuberculosis and Malaria Act of 2003.
State Department photo by Michael Gross

President Bush announced his Emergency Plan for AIDS Relief in January 2003. It will provide $15 billion, including nearly $10 billion in new funding, to fight the HIV/AIDS pandemic over the next five years, focusing on 14 of the hardest hit countries. The Emergency Plan pledges $1 billion to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) over the next 5 years, increasing the total U.S. commitment to over $1.6 billion since the Fund's inception. The U.S. Leadership Against HIV/AIDS, Tuberculosis and Malaria Act, authorizing the initiative, was passed in May 2003. Ambassador Randall Tobias was confirmed in October as Global AIDS Coordinator to administer the Emergency Plan.

STRATEGIC GOAL #10: HUMANITARIAN RESPONSE

Angola Repatriation

The end of civil war in Angola has made it possible for hundreds of thousands of refugees and internally displaced persons (IDPs) to return home, many of whom were displaced as long ago as 1965. In June 2003, the UN High Commissioner for Refugees (UNHCR) launched a major repatriation operation to facilitate the return of some 400,000 Angolan refugees from neighboring countries. The Department contributed over $12.6 million in support of Angolan repatriation, which includes return transportation and reintegration assistance such as identification and registration, transit centers, food aid, health services, mine risk education and HIV/AIDS awareness.
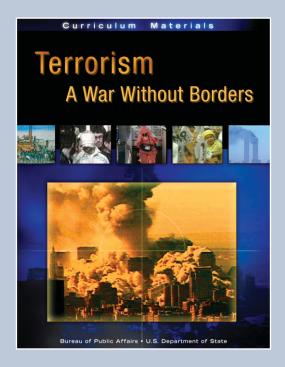
Malnourished children in a refugee camp near Lobito, Angola, wait for a plate of corn porridge, their only daily meal, supplied by Jesus Alive Ministeries, a South African based Christian group. The children show signs of malnutrition such as thinning and yellowing hair, flaking skin, and potbellies.
© AP Photo/ Pieter Malan

STRATEGIC GOAL #11: PUBLIC DIPLOMACY AND PUBLIC AFFAIRS

Educating the Public About Terrorism

In an exciting new outreach initiative, the Bureau of Public Affairs produced a high-quality historical video and curriculum package on terrorism for use in high school classrooms around the country. A War Without Borders was designed to give students a brief overview of the history and impact of terrorism and help them understand its relationship to their own lives. Distributed to nearly 13,000 social studies teachers, A War Without Borders reached more American students than any other post-9/11 curriculum package, according to an independent university study. Feedback has been overwhelmingly positive, and many teachers have decided to re-use the package annually.   The video is the first in a series created especially for students to help them understand both the complexities and opportunities of the world in the 21st century.

In the Department-produced video and curriculum package Terrorism: A War Without Borders (pictured at left), students around the country were challenged to answer the question, "What do you think?" The classroom-ready package fully supports the curriculum standards of the National Council for the Social Studies.
Department of State Photo

STRATEGIC GOAL #12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Strengthening Embassy Compounds

The Bureau of Overseas Buildings Operations (OBO) completed seven capital construction projects in FY 2003. These include new embassy compounds (NECs) in Tunis, Dar es Salaam, Zagreb, Istanbul; the USAID facility in Dar es Salaam; and the Bogota USAID/NAS Annex. These facilities were accomplished on time and within budgets based on their construction contracts. In addition, OBO had 17 capital projects under construction and another 9 projects awarded at the end of FY 2003. These, plus 81 new embassy compound (NEC) capital projects currently in planning, will significantly strengthen embassy and consulate compounds to provide secure, safe, and functional facilities for U.S. Government employees serving the nation's interests overseas. The Department's overseas buildings plan is in high gear as evidenced by the number of fine new facilities being completed and those on the way.

U.S. Marines raise the American flag during the inauguration of the new U.S. Embassy in Nairobi, Kenya. Al-Qaida operatives planned to destroy the U.S. Embassy in Nairobi in June with a truck bomb and a hijacked small plane loaded with explosives.
© AP Photo/ Khalil Senosi

SUMMARY AND RAMIFICATIONS OF RESULTS RATED "SIGNIFICANTLY BELOW TARGET"

Of the 171 targets, five of the associated results were "significantly below target." These are detailed below.

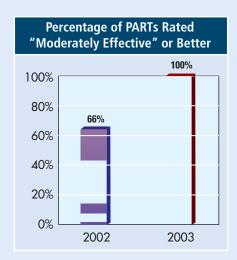| Target	Result	Reason for Performance Shortfall	Steps Being Taken to Improve Performance	Impact of Performance Shortfall on 2004 Results
STRATEGIC GOAL 1: REGIONAL STABILITY				
Russia fulfills all Istanbul commitments (troop withdrawal from Georgia and Moldova), allowing for U.S. ratification and entry into force of the Adapted CFE Treaty.	The trains moving ammunition and equipment out of Moldova are running on a modest schedule. Russia will not meet the December 31, 2003, deadline to withdraw forces from Moldova. Progress on Georgia has been stalled for most of 2003.	Russia has not made the difficult political decisions necessary to fulfill its commitments regarding Georgia and Moldova.	The U.S. will increase the level of pressure on Russia by making this a topic for senior exchanges.	The continued inability to begin the process of achieving entry into force of the Adapted CFE Treaty will undercut the level of confidence and predictability achieved by the current CFE Treaty.
STRATEGIC GOAL 6: AMERICAN CITIZENS				
100% (Consular Information Sheets Revised on an Annual Basis)	85%	The goal of annual revisions of all CIS could not be reached this year due to crisis management duties and other assistance to Americans abroad.	The Department will make a concerted effort to reach 100% in FY 2004.	The performance shortfall in FY 2003 should have very little impact on performance in FY 2004.
STRATEGIC GOAL 8: ECONOMIC PROSPERITY AND SECURITY				
Obtain Congressional support and legislative authorization for the Millennium Challenge Account. Choose countries for initial MCA funding and establish an administrative mechanism.	Onset of program is delayed until congressional action.	Congress did not enact authorizing and implementing legislation for MCA in FY 2003.	The Department has worked closely with Congress to pass the legislation and ensure a quick start-up of the MCC once legislation has passed.	Target should be reached in the first half of FY 2004.
STRATEGIC GOAL 10: HUMANITARIAN RESPONSE				
100% of refugees resettled in the U.S. as a percentage of the allocated ceiling.	Out of an allocated ceiling of 70,000 refugees, 28,421 (or 41 percent) were resettled.	External factors, such as unanticipated refugee approval rates, security constraints on processing overseas, and security coordination with other agencies affected performance.	Identify new populations in need of resettlement; Provide appropriate resources to UNHCR to develop resettlement referrals; train NGOs to identify refugees for resettlement.	Many refugees not resettled in the U.S. continue to seek durable solutions to their plight.
STRATEGIC GOAL 12: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE				
Construction of a new Office Building for U.S. Mission to the U.N.: Award Interim Office Building (IOB) lease; Complete IOB build-out.	GSA not able to finalize IOB lease in FY 2003. As a result, lease signing and IOB build-out are delayed to FY 2004.	DOS did not receive its IOB FY 2003 funding until the 3rd Quarter. GSA failed to meet its target of IOB lease award in 3rd Quarter of FY 2003.	GSA has assigned new staff to complete an IOB lease at an alternative site with the goal of occupying the space in June 2004.	The lack of an IOB lease and build-out in FY 2003 has delayed the overall USUN construction schedule such that the occupancy of the new USUN building may slip to FY 2008 from FY 2007.

PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. Through the use of in-depth, diagnostic questions, the PART is employed to assess and evaluate programs across a set of performance-related criteria. PART results are then used to help improve program management and ensure that the American taxpayers receive the best value for their tax dollars.

In the fall of 2002 and summer of 2003, OMB reviewed approximately 40% of State's programs and plans to review an additional 20% in the spring/summer of 2004. The results of these reviews are used to inform the planning and budgeting process and are published in the annual President's Budget, which is submitted to Congress. Information depicted in Table 1 shows that most of the Department's FY 2004 PARTs[1] demonstrated evidence of improvement when reassessed in 2003. As shown in Table 1, all of the Department's reassessed PARTs are now rated Moderately Effective or above. Finally, the Department has created efficiency measures for all PART programs reviewed to-date.

The results from the PART reviews conducted by OMB are summarized on the following pages by strategic goal. Information in Table 2 describes how bureaus have addressed and implemented findings and recommendations for FY 2004 PARTs. In contrast to the FY 2004 PARTs, for the FY 2005 PARTs, "major findings/recommendations" and "actions taken/planned" were not yet final at the time of publication and thus are not shown. The FY 2005 PARTs are shown on Table 3.

TABLE 1
STATUS OF THE RE-ASSESSED PARTS

2003 RATINGS REFLECT IMPROVEMENT		
Rating	2002 Ratings	2003 Ratings
Effective	0	3
Moderately Effective	4	6
Adequate	2	0
Results Not Demonstrated	3	0
Totals	9	9

Percentage of PARTs Rated "Moderately Effective" or Better

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[1] Those programs reviewed for the first time in FY 2002 for the FY 2004 budget and then reassessed in FY 2003 for the FY 2005 budget.

TABLE 2
FY 2004 PART SUMMARIES BY STRATEGIC GOAL

STRATEGIC GOAL 1	REGIONAL STABILITY
Program Name	**Military Assistance to New NATO and NATO Aspirant Nations**
Score and Rating	◆ FY 2004: Moderately Effective ◆ FY 2005: Moderately Effective
Lead Bureau	◆ European and Eurasian Affairs (EUR)
Major Findings/ Recommendations	◆ There is no regularly scheduled evaluation of program effectiveness by independent parties. ◆ The Department of State and Defense differ on priorities and do not produce coinciding budget schedules.
Actions Taken/Planned	◆ DoD goals are discussed in interagency meetings to balance DoD requirements with Department goals. This will produce a single, agreed-upon recommendation.
Program Name	**Peacekeeping Operations OSCE**
Score and Rating	◆ FY 2004: Results Not Demonstrated ◆ FY 2005: Moderately Effective
Lead Bureau	◆ European and Eurasian Affairs (EUR)
Major Findings/ Recommendations	◆ Does not contain adequate annual targets or baseline information. ◆ Performance goals are overly broad and dependent on numerous factors. ◆ Information in performance reports is not linked to performance plan measures or compared against baseline data. ◆ Program managers not held accountable for program performance.
Actions Taken/Planned	◆ USOSCE, EUR and PM developed detailed performance indicators for PKO-funded OSCE Missions and Activities. ◆ Performance indicators developed for OSCE-brokered political settlements in Moldova, Nagorno-Karabakh conflict between Armenia and Azerbaijan and US initiatives to improve financial management of the OSCE Secretariat. ◆ FY 2005 USOSCE Mission Performance Plan (MPP) praised by OMB as a model for clarity of performance-based foreign policy objectives.
Program Name	**Security Assistance to Sub-Saharan Africa**
Score and Rating	◆ FY 2004: Results Not Demonstrated ◆ FY 2005: Moderately Effective
Lead Bureau	◆ African Affairs (AF)
Major Findings/ Recommendations	◆ Programs did not differentiate between annual and long-term goals, or include targets and baseline information. ◆ Performance goals are overly broad and dependent on numerous factors. ◆ Information in performance reports is not linked to performance plan measures or compared against baseline data. ◆ Program managers not held accountable for program performance.
Actions Taken/Planned	◆ Provided proposed measures to OMB for review. ◆ Provided performance data for use in Department's Performance and Accountability Report. ◆ Incorporated responses to recommendations in FY 2005 BPP.

STRATEGIC GOAL 2 — COUNTERTERRORISM

Program Name	Anti-Terrorism Assistance
Score and Rating	◆ FY 2004: Moderately Effective ◆ FY 2005: Effective
Lead Bureau	◆ Diplomatic Security (DS)
Major Findings/ Recommendations	◆ Long-term goals do not have performance indicators or other long-term targets. ◆ Program should establish measures to gauge progress toward long-term goals.
Actions Taken/Planned	◆ Establish long term goals and targets. ◆ Establish measures to gauge progress toward long-term goals.

STRATEGIC GOAL 3 — HOMELAND SECURITY

Program Name	Visa and Consular Services/ Border Security
Score and Rating	◆ FY 2004: Moderately Effective ◆ FY 2005: Moderately Effective
Lead Bureau	◆ Consular Affairs (CA)
Major Findings/ Recommendations	◆ Annual goals and targets do not adequately link to the long-term goals or provide relevant performance data.
Actions Taken/Planned	◆ CA is working with OMB to ensure that annual goals and targets link to the long-term goals and provide relevant performance data. Revised goals and targets will be reflected in next year's PART.

STRATEGIC GOAL 10 — HUMANITARIAN RESPONSE

Program Name	Refugee Admissions to the U.S.
Score and Rating	◆ FY 2004: Adequate ◆ FY 2005: Moderately Effective
Lead Bureau	◆ Population, Refugees and Migration (PRM)
Major Findings/ Recommendations	◆ Program managers at the Department closely collaborate with grantees and state governments to ensure effective use of funds. ◆ Management should focus on strategic planning. 2003 and prior performance plans had overly broad goals that made it difficult to measure effectiveness. ◆ Overlap was found between functions of DoS and HHS programs.
Actions Taken/Planned	◆ OMB will review the relationship between the Refugee Admissions program at the Department of State and the Office of Refugee Resettlement at HHS. ◆ The Department will continue ongoing efforts to improve strategic planning and ensure that goals are measurable and mission-related.
Program Name	**Humanitarian Migrants to Israel**
Score and Rating	◆ FY 2004: Adequate ◆ FY 2005: Moderately Effective
Lead Bureau	◆ Population, Refugees and Migration (PRM)
Major Findings/ Recommendations	◆ Program needs continued focus on strategic planning; needs more ambitious targets. ◆ PRM has been working with the United Israel Appeal (UIA) and the Jewish Agency for Israel to create annual performance goals that meaningfully reflect program purpose. ◆ The program is making some progress toward achieving its long-term and short-term goals.
Actions Taken/Planned	◆ In FY 2003, the Department and UIA developed an agreed upon set of long-term and short term goals for UIA.

STRATEGIC GOAL 11	PUBLIC DIPLOMACY AND PUBLIC AFFAIRS
Program Name	Educational Exchanges in Near East Asia and South Asia
Score and Rating	◆ FY 2004: Results not Demonstrated ◆ FY 2005: Effective
Lead Bureau	◆ Education and Cultural Affairs (ECA)

Major Findings/ Recommendations	◆ Interim FY 2004 Finding: Program needs to strengthen strategic planning by taking the following actions:
	  1. Set long-term goals relative to baseline,
	  2. Clearly define targets and timeframes to measure annual progress,
	  3. Create regional long-term goals, and
	  4. Tailor its planning by regional/country to effectively reach target audiences.

Actions Taken/Planned	◆ Department provides proposed performance measures and goals as well as a proposed planning process to OMB for review. ◆ Long-term and annual goals are set to established baselines, targets and timeframes now included in performance indicators. ◆ Regional goals are established through coordination with regional bureaus. ◆ Program planning tailored by region/country and target audience. Partnerships for Learning (P4L) initiative launched. ◆ A performance measurement system, based on PART recommendations in development, FY 2003 pilot testing includes NEA and SA exchanges. ◆ Hired an exchanges coordinator, started an exchange working group, and hired a Middle East Initiatives evaluation officer.

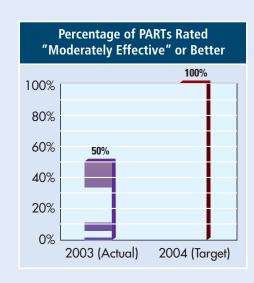| STRATEGIC GOAL 12	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
Program Name	Capital Security Construction
Score and Rating	◆ FY 2004: Moderately Effective ◆ FY 2005: Effective
Lead Bureau	◆ Overseas Buildings Operations (OBO)
Major Findings/ Recommendations	◆ At the time of the FY 2004 PART review, the effects of management changes undertaken in OBO were not yet known. However, the effects of management changes were fully documented in the FY 2005 PART and were shown to be highly successful as evidenced by outstanding results demonstrated by the Capital Security Construction program.
Actions Taken/Planned	◆ The Department developed annual and long-range performance goals, which are closely integrated with the budget – one of the positive results from management changes made over the past two years in OBO.

TABLE 3
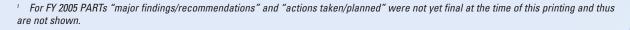## FY 2005 PART SUMMARIES BY STRATEGIC GOAL[1]

Strategic Goal	Program Name	Rating	Lead Bureau
Regional Stability	Foreign Military Financing	Moderately Effective	Western Hemisphere Affairs
Counterterrorism	Terrorist Interdiction Program	Results Not Demonstrated	Counterterrorism
Weapons of Mass Destruction	Nonproliferation and Disarmament Fund	Results Not Demonstrated	Non Proliferation
Democracy and Human Rights and Economic Prosperity and Security	Support for East European Democracy (SEED) and Assistance for the Independent States of the Former Soviet Union (FSA)	Results Not Demonstrated	European and Eurasian Affairs
Economic Prosperity and Security	United Nations Development Program	Results Not Demonstrated	International Organizations
Humanitarian Response	United Nations High Commissioner for Refugees	Moderately Effective	Political-Military Affairs
	Humanitarian Demining	Effective	Population, Refugees and Migration
Management and Organizational Excellence	Worldwide Security Upgrades	Moderately Effective	Diplomatic Security

The tables below summarize the ratings for the Department's eight FY 2005 PART reviews. The Department's goal is to have all of these PARTs rated Moderately Effective or better by 2004.

RATING SUMMARY	
Rating	Distribution
Effective	1
Moderately Effective	3
Adequate	0
Results Not Demonstrated	4
Totals	8

Percentage of PARTs Rated "Moderately Effective" or Better

THE PRESIDENT'S MANAGEMENT AGENDA AND MANAGEMENT CHALLENGES

THE PRESIDENT'S MANAGEMENT AGENDA

The Department has made substantial progress on each of the five President's Management Agenda (PMA) initiatives. Each quarter, the Office of Management and Budget (OMB) releases an executive scorecard which rates progress and overall status in each of the President's Management Agenda initiatives. The progress and status ratings use a color-coded system that is based on criteria determined by OMB and used by all agencies. As of December 2003, the Department achieved four "green" and one "yellow" score for progress on implementation. With respect to overall status, the Department has made significant improvements in several areas, with the status scores for Strategic Management of Human Capital, Improved Financial Performance, and Budget and Performance Integration now at "yellow". The following is a brief overview of the Department's overall PMA progress:

Progress

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

Status

◆ **GOAL**
  ○ Build, sustain, and deploy effectively a skilled, knowledgeable, diverse, and high-performing workforce aligned with mission objectives.

◆ **PROGRESS DURING FY 2003**
  ○ Implemented the 2nd year of the Diplomatic Readiness Initiative (DRI).
  ○ Integrated Human Capital elements in all Bureau Performance Plans (BPPs).
  ○ Resolved Central Personnel Data File (CPDF) reporting problems.
  ○ Enhanced Domestic Staffing Model (DSM). Implemented Civil Service succession model. Refined skills/competency criteria. Identified opportunities for reengineering Executive Office (EX) functions.
  ○ Developed new Foreign Service (FS) evaluation form, and disseminated guidance on Civil Service (CS) evaluation.
  ○ Expanded use of Accountability System.

◆ **UPCOMING ACTION**
  ○ Document Comprehensive Human Capital Plan.
  ○ Implement Central Personnel Data File reporting action plan.
  ○ Use enhanced workforce planning tools for budget preparation, financial plan implementation, and intake planning.
  ○ Evaluate enhanced Domestic Staffing Model (DSM) administrative function opportunities and report on management decisions regarding next steps. Finalize procedures and develop schedule for other functions in Phase 2 of DSM.
  ○ Finalize changes to Foreign Service performance evaluation process and prepare for pilot. Complete CS evaluation assessment.
  ○ Expand Accountability System to cover additional management processes.
  ○ Report on results of 3rd year leadership & management training initiative and new class of Senior Executive Service Candidates in OPM program.
  ○ Report results of CS succession.

Progress

COMPETITIVE SOURCING

Status

- ◆ **GOAL**
  - ◉ Use competition to determine the most effective method of providing commercial activities to the Department.

- ◆ **PROGRESS DURING FY 2003**
  - ◉ Completed first streamlined competition. Secured $1.2 million for program, inventory, training, planning and office space. Received approval for five CS positions and hired support contractor.
  - ◉ 8(a) contractor hired to conduct market analysis, benchmarking and organizational assessment for entire Multi-Media Services organization.
  - ◉ Began program of expanded training including human resources, FAIR Act, and contracting staff.
  - ◉ Issued Competitive Sourcing guidance establishing a Competitive Sourcing Official, Competition Council, and Steering Committee.

- ◆ **UPCOMING ACTION**
  - ◉ Release FAIR Act inventory and complete challenge/appeals process.
  - ◉ Evaluate competition candidates and report on status of media services review, the International Boundary and Water Commission, and other competitions.
  - ◉ Conduct first Foreign Service Institute classes in new curriculum.
  - ◉ Complete office space and identify remaining civil service staff.

Progress

IMPROVED FINANCIAL PERFORMANCE

Status

- ◆ **GOAL**
  - ◉ Improve accountability through audited financial statements.
  - ◉ Increase accuracy of benefit and assistance payments.
  - ◉ Strengthen management controls.
  - ◉ Implement financial systems that produce timely, accurate and useful financial information.

- ◆ **PROGRESS DURING FY 2003**
  - ◉ In December 2003, improved status score from "red" to "yellow" as a result of the independent auditor reassessing the Department's IT security from a material weakness to a reportable condition.
  - ◉ The Department's FY 2003 Financial Statements received an unqualified opinion, marking the seventh consecutive unqualified opinion, and were issued five weeks earlier than FY 2002.
  - ◉ New Regional Financial Management System (RFMS) was implemented for all overseas posts, providing daily updates of worldwide spending and accounting information.
  - ◉ Received the prestigious Certification of Excellence for Accountability Reporting (CEAR) for the "FY 2002 Performance and Accountability Report". State was also honored to receive the Platinum 2002 Vision Award for the "Performance and Accountability Highlights" placing fourth overall from among over 900 entrants.
  - ◉ Resolved all material weaknesses and material nonconformances, as defined by the Federal Managers' Financial Integrity Act, allowing the Secretary to issue an unqualified Statement of Assurance for FY 2003 regarding the Department's systems of management control and financial systems.
  - ◉ Prepared and submitted monthly performance metrics as established by the CFO Council.
  - ◉ Relocated the Department's financial operations from the Paris Financial Service Center (FSC) to the Charleston, South Carolina and Bangkok, Thailand FSCs.
  - ◉ Developed a methodology to evaluate and report on the extent of erroneous payments within the Department's financial assistance programs. The OMB has cited the Department's methodology as a "best practice".
  - ◉ With USAID, developed a joint Enterprise Architecture and Business Case for a common financial systems platform.

- ◆ **UPCOMING ACTION**
  - ◉ Ongoing consolidation of headquarters financial operations to the Charleston FSC.
  - ◉ Ongoing collaboration with USAID to establish a joint financial platform for the beginning of FY 2006.
  - ◉ Streamline processes to meet the accelerated financial reporting due date of November 15th for FY 2004 and beyond.

EXPANDED ELECTRONIC GOVERNMENT

Progress

Status

- ◆ **GOAL**
  - Expand the federal government's use of electronic technologies (such as e-procurements, e-grants, and e-regulation), so that Americans can receive high-quality government service.

- ◆ **PROGRESS DURING FY 2003**
  - Completed certification and accreditation (C&A) for 56 out of 139 systems. This is a remarkable accomplishment as State had certified only 3 percent of systems as of in September 2002. State met its C&A milestone for FY 2003.
  - Department and USAID completed a joint As-Is Enterprise Architecture.
  - Submitted the first Federal Information Security Management Act (FISMA) report (previous report was GISRA).
  - Completed Classified Connectivity project ahead of schedule and under budget.
  - Designed and began implementing a full-scale select, Control and Evaluate process for Capital Planning and Investment Control (CPIC).

- ◆ **UPCOMING ACTION**
  - The joint State/USAID Management Council agrees on an implementation plan for the joint "To-Be" Enterprise Architecture with milestones for lines of business.
  - Report on percentage of systems certified and accredited.
  - OIG verifies that there is a Department-wide IT Security Plan of Action and Milestones.
  - Review data required for each stage of the system development life cycle and report cost/schedule/performance results to OMB in annual business cases.
  - The State Messaging and Archive Retrieval Toolset (SMART) Program Management Office (PMO) will coordinate with the E-government initiatives to ensure the project is not redundant, or agency unique.
  - Review Government Paperwork Elimination Act non-compliant issues for possible modification and E-government project collaboration.

BUDGET AND PERFORMANCE INTEGRATION

Progress

Status

- ◆ **GOAL**
  - Improve performance and management by linking performance to budget decisions and improve performance tracking and management. The ultimate goal is to have better control over resources and greater accountability over results.

- ◆ **PROGRESS DURING FY 2003**
  - Developed first-ever joint State-USAID Strategic Plan.
  - Reduced Strategic Objectives by 55%, reduced strategic goals by 40%, and developed outcome-oriented performance goals that directly link to the strategic objectives and goals.
  - Allocated resources at both the strategic and performance goal levels for both State and non-State administered accounts.
  - Developed PART ratings and substantive analyses for all completed PARTs for inclusion in the President's Budget to justify funding requests.
  - Created efficiency measures for all completed PART programs.
  - Developed a Performance Indicator and Analysis catalogue.
  - Addressed FY 2004 PART findings/recommendations, including taking key management actions to address deficiencies.
  - Completed automation of Mission and Bureau Performance Plan Modules (MPP - Version 1 and Version 2) and (BPP Module - Version 1), and Statement of Net Cost for the Central Financial Planning System (CFPS).

- ◆ **UPCOMING ACTION**
  - Develop efficiency measures for all programs.
  - Devise methodology to demonstrate the marginal cost of achieving a performance goal.
  - Complete Bureau Performance Plan (Version 2).
  - Develop Bureau Resource Management System CFPS Module.

President Bush emphasized the importance of safety, efficiency, and accountability in U.S. Government staffing overseas by identifying Rightsizing as part of the President's Management Agenda (PMA). Rightsizing is ensuring that the mix of U.S. Government agencies and personnel overseas is appropriately aligned with our foreign policy priorities, security concerns, and overall resource constraints. The Office of Management and Budget (OMB) has the lead on this PMA initiative. It is included in this report due to its importance to the Department.

Progress

RIGHT-SIZED OVERSEAS PRESENCE
(OMB LEAD)

Status

- ◆ **GOAL**
  - ◉ Reconfigure U.S. government overseas staff allocation to the minimum necessary to meet U.S. foreign policy goals.
  - ◉ Have a government-wide, comprehensive accounting of total overseas personnel costs and accurate mission, budget and staffing information.
  - ◉ Use staffing patterns to determine embassy construction needs.

- ◆ **PROGRESS DURING FY 2003**
  - ◉ OMB and Department's Overseas Building Operations office developed a cost sharing program to fully implement the first year of the program. All affected agencies' budget requests include funding for their share of the FY 2005 cost.
  - ◉ The Department completed an assessment of all staff currently in and planning to move to the Frankfurt "Creekbed" regional facility.
  - ◉ State Department, with OMB guidance, developed a set of staffing guidelines in preparing estimates for new embassies. These improved estimates will shape budget decisions on embassy size and configuration.
  - ◉ OMB published guidance requiring agencies with staff overseas to submit overseas cost and staff data with their budget request submission to OMB.

- ◆ **UPCOMING ACTION**
  - ◉ Take next step in Frankfurt regionalization pilot to ensure that the facility is fully utilized.
  - ◉ Convene interagency working group to discuss how to uniformly estimate cost of staff overseas and release staffing guidelines.
  - ◉ Complete follow up with agencies on Sec. 58 A-11 submissions and input data from agency submissions into rightsizing database to include in printed Budget.
  - ◉ Department and OMB to work to expand Frankfurt pilot; engage in rightsizing exercises at larger embassies using GAO rightsizing criteria.

MANAGEMENT CHALLENGES

The General Accounting Office and the Department's Office of Inspector General have identified several "management challenges" that represent areas where the Department must improve operations. The table below summarizes, by strategic goal, each of the challenges, their corresponding findings, recommendations, actions being taken and expected results.

STRATEGIC GOAL	HOMELAND SECURITY
Challenge	**Visa Processing and Border Security**
Findings	◆ Since 9/11, the Department has introduced changes to strengthen the visa process, but there continues to be a divergence of opinions concerning visa policies and procedures that are appropriate given the need for heightened border security. (GAO-03-132NI) ◆ The USG has no specific written policy on the use of visa revocations as an antiterrorism tool and no written procedures to guide State in notifying the relevant agencies of visa revocations on terrorism grounds. (GAO Report 03-798) ◆ Appropriate units within INS and the FBI do not always receive notifications of all the revocations. (GAO Report 03-798) ◆ Names were not consistently posted to the agencies' watch lists of suspected terrorists. (GAO Report 03-798) ◆ Consular Affairs still has shortcomings that include: Lack of uniformity in visa processing, lack of a planning staff to develop options for consular input into border security initiatives and directions. (ISP-I-03-26)
Recommendations	◆ Develop a clear policy on the priority attached to addressing national security concerns connected with the visa process; develop more comprehensive guidance on how posts should use the visa process to screen against potential terrorists; assess staffing requirements for visa operations; and expand consular training. (GAO-03-132NI) ◆ Ensure that appropriate units within INS and the FBI receive notification of visa revocations. (ISP-I-03-26) ◆ Visa process must be considered as part of a larger process of admitting and tracking visa recipients. (ISP-I-03-26) ◆ Department must re-think its approach to issuing visas and devote the needed human and financial resources. (ISP-I-03-26)
Actions Being Taken	◆ Issued a "visa roadmap" outlining new visa priorities and policies. Issued over 40 standard operating procedures to ensure that consular officers abroad properly review visa applications, effectively fulfill their critical national security responsibilities, and have a step-by-step, unambiguous guide for all procedures. Added staff, including a Senior Advisor for Strategic Planning, and expanded consular training. (GAO-03-132NI and ISP-I-03-26) ◆ Visa revocation problems were fixed. Written instructions provided in the Foreign Affairs Manual. Notice of visa revocation is provided to the Department of Homeland Security and the FBI. Visa revocation lookout code is shared between DOS and DHS lookout systems. (GAO Report 03-798) ◆ Added staff, including a Senior Advisor for Strategic Planning, in the Visa Office and established 39 new overseas positions funded by visa fees and 51 new consular positions under the Diplomatic Readiness Initiative in FY 2003. Additional positions are planned for FY 2004. (OIG-1-03-26) ◆ Introduced new training on interviewing techniques, with additional emphasis on ethics and terrorism and expanded Chief of Mission, DCM and Principal Officer training. In FY 2004 five days will be added to the 26-day basic consular course. (GAO-)#-132NI) ◆ New leadership in the Bureau of Consular Affairs is committed to minimizing the vulnerabilities in visa processing. (OIG-I-03-26)
Expected Result	◆ MOU between DHS and DOS provides a framework for better coordination of border security; integrated entry/exit/tracking systems with DHS; series of instructions specifying standard operating procedures (SOP) contributes to implementation of Visa Roadmap. Consular Management Assistance Teams will reinforce SOPs and sound management practices. Resource needs are under constant review; missions that are most impacted by post 9/11 changes in visa processing are receiving assistance.

STRATEGIC GOAL	INTERNATIONAL CRIME AND DRUGS
Challenge	**Strategic Planning**
Findings	◆ Although the U.S.-backed counternarcotics program in Colombia has begun to achieve some of the results originally envisioned, Colombia and the United States must deal with financial and management challenges. Three years into Plan Colombia, the Departments of State and Defense have yet to develop estimates of future program costs, define their future roles in Colombia, identify a proposed end state, or determine how they plan to achieve it. (GAO-03-783)
Recommendations	◆ Establish clear objectives, including developing specific performance measures, and estimate future U.S. funding requirements for the programs with the Colombian Army and the Colombian National Police. (GAO-03-783)
Actions Being Taken	◆ Beginning with the FY 2005 budget cycle, the Department intends to establish clear objectives, develop performance measures and estimate future funding requirements. This is now possible due to the maturation of "Plan Colombia" over three years.
Expected Result	**GENERAL** ◆ Coca and poppy cultivation drops to a lower level. ◆ Colombianization of program increases as more Colombian pilots are trained and ownership of aircraft is gradually transferred. ◆ Demobilization of para-military and insurgent groups lowers level of violence but there will be reintegration costs to be sustained. Estimate is not clear as of yet. **PROGRAM** **Colombian Army** ◉ Through increased aviation support, operations areas of three battalions expanded from Putamayo region to all regions of Colombia during 2005. ◉ Expanded use of Mobile Brigade into a quick strike force against high-value narcoterrorists. **Colombian National Police** ◉ Aggressive spraying campaign enters a maintenance phase with success measured by the absence of mature coca and a lowered rate of replanting. Infrastructure support allows anti-narcotics brigade to operate in remote Eastern, Southern and Western zones. **Alternative Development** ◉ Over 5,000 hectares of licit crop established and assistance provided to 5,000 rural families. Through mental health, income generation and urban infrastructure development, employment assistance provided to over 300,000 internally displaced persons. **Rule of Law** ◉ Municipal police units inserted into newly liberated municipality areas and new Carabineros squadrons dispersed as rural police.

STRATEGIC GOAL	DEMOCRACY AND HUMAN RIGHTS
Challenge	**Interagency Coordination**
Findings	◆ Although U.S. democracy assistance programs in Latin America have shown modest results, several management issues have hampered effectiveness. Poor coordination among the key U.S. agencies has been a long-standing management problem, and cooperation with foreign donors has been limited. (GAO-03-358)
Recommendations	◆ The Department and other agencies should develop more comprehensive strategic plans at the regional and country level to address cooperation among agencies and other major donors. ◆ Establish a strategy for evaluating projects and a mechanism to share information among U.S. agencies and project implementers. (GAO-03-358)
Actions Being Taken	◆ Interagency discussions are now underway that will lead to increased USG cooperation in implementing democracy assistance programs. The immediate objectives of interagency meetings will be to share information, avoid duplication and ensure optimal use of available funds from all sources.
Expected Result	◆ Freedom House and Department polling data demonstrate measurable rise in, ◉ Public confidence in democratic institutions ◉ Respect for human rights and the rule of law ◉ Perceived transparency and accountability of government institutions.

STRATEGIC GOAL	MANAGEMENT AND ORGANIZATIONAL EXCELLENCE
Challenge	**Financial Management**
Findings	◆ Improvement made with respect to travel card payments by implementing procedures aimed at decreasing the number of travel card payment delinquencies in the 90-day or 120-day past due categories. (OIG Report AUD/FM-03-22) ◆ Despite recent strides, insufficient internal controls to prevent/detect travel card misuse. (OIG Report AUD/FM-03-22)
Recommendations	◆ Address delinquencies before they reach the 90-day past due category by putting into place a process to address delinquencies in the 60-day past due period. (OIG Report AUD/FM-03-22) ◆ Provide program coordinators with clear written guidance and adequate formal training. ◆ Improve oversight of travel card program by checking for multiple accounts and transferring/canceling travel cards when an employee leaves a bureau. (OIG Report AUD/FM-03-22)
Actions Being Taken	◆ Implementing a process to deal with travel card payment delinquencies in the 90- and 120-day past due categories. (OIG Report AUD/FM-03-22) ◆ Launching a preliminary effort to detect and prevent misuse of travel cards. (OIG Report AUD/FM-03-22)
Expected Result	◆ Improved administrative oversight and internal controls of travel card program. ◆ Increased volume-based refund from credit card provider.
Challenge	**Overseas Building Security**
Findings	◆ GAO found that the Department has done much over the past four years to improve physical security at overseas posts; however most office facilities still do not meet security standards. (GAO Report 03-557T)
Recommendations	◆ Because of the high costs and importance of the Capital Security Construction program, GAO believes the program merits continued oversight. (GAO Report 03-557T)
Actions Being Taken	◆ Constructing perimeter walls, anti-ram barriers, and access controls at many facilities. Funding the construction of new buildings and other such capital projects to improve overseas facilities. (GAO Report 03-557T)
Expected Result	◆ The construction of new embassy/consulate compounds will meet current security standards. ◆ Successful implementation of the proposed capital security cost-sharing (CSCS) program will accelerate completion of necessary buildings from over 20 years to 14 years and encourage rightsizing.
Challenge	**Knowledge Management**
Findings	◆ The Department has ensured senior management oversight for implementation of its knowledge management (KM) program. (OIG-IT-A-03-08) ◆ The Office of e-Diplomacy is working to develop an action plan to implement KM Department-wide having compiled ideas from extensive networking with public and private sector organizations. (OIG-IT-A-03-08)
Recommendations	◆ Identify business requirements, such as core diplomatic functions, as a basis for shaping KM approach. (OIG-IT-A-03-08) ◆ Implement KM through community-building, IT tools, commitment and training and identify and counteract cultural barriers to KM. (IT-A-03-08)
Actions Being Taken	◆ Improving DOS intranet site to collect, integrate and share knowledge more efficiently. (OIG-IT-A-03-08) ◆ Exploitation of key technologies to improve the Department's performance worldwide. (OIG-IT-A-03-08) ◆ Greater use of IT networks for information exchange and collaboration. (OIG-IT-A-03-08) ◆ The Department is developing a system to provide diplomats and managers with significantly enhanced communications and knowledge management tools. ◆ In FY 2002 and FY 2003, the Department completed a Business Process Reengineering (BPR) study, determined requirements, assessed alternatives and completed and evaluated a prototype/proof of concept for elimination of the legacy cable system. ◆ In FY 2004, one vendor was selected to develop a solution for a design/demonstration. The solution will be piloted involving over 4,000 users in domestic and overseas locations. ◆ In FY 2005, State Messaging and Archive Retrieval Toolset (SMART) will be deployed worldwide.
Expected Result	◆ The Department's institutional knowledge is available to its own professionals and to other foreign affairs, intelligence and homeland security agencies. ◆ Special expertise is easier to locate and employees are more productive.

MANAGEMENT CONTROLS, SYSTEMS AND COMPLIANCE WITH LAWS AND REGULATIONS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management control and financial systems that provide reasonable assurance that the integrity of federal programs and operations are protected. It also requires that the head of the agency, based on an evaluation, provide an annual Statement of Assurance on whether the agency has met this requirement.

The Secretary of State's unqualified Statement of Assurance for FY 2003 is included in the Secretary's letter at the beginning of this report. The Department evaluated its management control systems and financial management systems for the fiscal year ended September 30, 2003. This evaluation provided reasonable assurance that the objectives of the FMFIA were achieved in FY 2003, and formed the basis for the Secretary's Statement of Assurance.

Management Control Program

The Management Control Steering Committee (MCSC) oversees the Department's management control program. The MCSC is chaired by the Chief Financial Officer, and is composed of nine other Assistant Secretaries [including the Chief Information Officer and the Inspector General (non-voting)], the Deputy Chief Financial Officer, and the Deputy Legal Advisor. Individual assurance statements from Ambassadors assigned overseas and Assistant Secretaries in Washington, D.C. serve as the primary basis for the Department's assurance that management controls are adequate or that

FMFIA MATERIAL WEAKNESS CRITERIA

◆ Significantly impairs the fulfillment of the Department's mission.

◆ Deprives the public of needed services.

◆ Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest.

◆ Merits the attention of the Secretary, the President, or a relevant Congressional oversight committee.

◆ Is of a nature that omission from the report could reflect adversely on the Department's management integrity.

material weaknesses exist. The assurance statements are based on information gathered from various sources including the managers' personal knowledge of day-to-day operations and existing controls, management program reviews, and other management-initiated evaluations. In addition, the Office of the Inspector General and/or the General Accounting Office conduct reviews, audits, inspections, and investigations.

To be considered a material weakness in management control systems for FMFIA reporting purposes, the problem should be significant enough that it meets one or more of the FMFIA material weakness criteria. The chart above describes the criteria that the Department uses for the FMFIA review.

Status of Management Controls

The MCSC voted in FY 2002 to close the Department's three remaining material weaknesses. That was the first time since the inception of the FMFIA that the Department had no open material weaknesses. No new material weaknesses were identified by the MCSC during FY 2002 and 2003. As a result, the Secretary has provided an unqualified Statement of Assurance for the second year in a row regarding the Department's systems of management control.

During the last five years, the Department made significant progress reducing the number of material weaknesses from 10 to zero, with the addition of two new weaknesses and the closing of 12 weaknesses. In addition, there are no items specific to the Department on the General Accounting Office's High Risk List, and there have not been any since 1995. The following tables show the Department's progress during the past five years with correcting and closing material weaknesses.

NUMBER OF MATERIAL WEAKNESSES BY FISCAL YEAR				
Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected	Number Added	Number Remaining at End of Fiscal Year
1999	10	7	-	3
2000	3	2	2*	3
2001	3	-	-	3
2002	3	3	-	0
2003	0	-	-	0

* Reported by the Department of State as a result of the merger with the United States Information Agency.

Status of Financial Management Systems

For financial systems, the MCSC voted to close in FY 2003 the Department's one remaining material nonconformance - Financial and Accounting Systems. This is the first time since the inception of the FMFIA that the Department has no open material nonconformances – a significant accomplishment. A summary of actions taken to correct and close the one previously reported material nonconformance is provided in the table below.

SUMMARY OF FMFIA MATERIAL NONCONFORMANCE CLOSED IN FY 2003		
Material Nonconformance	Corrective Actions	Strategic Goal
Financial and Accounting Systems In 1983, the Department identified substantial weaknesses in its financial management systems. When first reported, the Department was burdened with managing six financial management systems worldwide, which support its domestic bureaus, overseas posts, and other overseas agencies. This nonconformance included the following five weaknesses: deficiencies in data quality, noncompliance with JFMIP core requirements, ineffective interfaces, inadequate documentation and audit trails, and inadequate support of mission performance.	Significant progress has been made over the past few years to improve financial management systems worldwide. The Department has reduced the number of financial management systems from six to two; reduced the number of post-level financial systems from nine to two; and, re-centralized disbursing offices from 22 to two. Implementation of the new Regional Financial Management System (RFMS) was completed September 2003 and is operational in all overseas posts. The reengineered overseas interface is operational, providing detailed (transaction level) information. Continuity of Operations Plans have been developed for Financial Service Centers in Charleston, SC and Bangkok and for Washington headquarters operations.	Management and Organizational Excellence

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) is designed to improve Federal financial management by requiring that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, agencies' financial management systems must comply substantially with three requirements: (1) Federal financial management system requirements; (2) applicable Federal accounting standards and (3) the U.S. Government Standard General Ledger (SGL). FFMIA also requires that the Independent Auditor's Report indicate whether the agency's financial management systems comply with these requirements.

Since enactment, the Department's financial management systems have not been in substantial compliance with FFMIA. As required by the law, the Department, in consultation with OMB, developed a remediation plan (the Plan) that, if properly implemented, would result in substantial compliance with FFMIA and improved financial management systems. The Department has made significant progress implementing the Plan. To date, eleven of the twelve initiatives included in the Plan are complete and substantial progress has been made towards completing the twelfth initiative. This progress, along with other information such as the independent auditor's report, is evaluated when making a determination about whether the Department's financial management systems substantially comply with FFMIA. The Department's determination is included in the Assistant Secretary and Chief Financial Officer's message at the beginning of this report.

The first table below provides a summary of the three Plan initiatives that were completed on schedule during FY 2003. The second table describes progress made on the twelfth initiative, which is substantially (but not entirely) complete. As of September 30, 2003, the independent auditor considered the Department's corrective actions sufficiently advanced to reduce this previously reported material weakness in information systems security to a reportable condition.

PLAN INITIATIVES COMPLETED IN FY 2003		
Initiatives	**Strategic Goal**	**Description**
Regional Financial Management System (RFMS)	Management and Organizational Excellence	RFMS supports State's goal to establish and maintain a single, integrated financial management system. RFMS (1) replaces and reduces the number of overseas regional systems from two to one; (2) incorporates State's standard account code structure, and (3) standardizes financial transactions between RFMS and CFMS, which will result in consistent processing of financial data worldwide.
Business Continuity Plans	Management and Organizational Excellence	State must always be prepared to deal with a broad range of crises, ranging from natural disasters to political instability to terrorist attacks. Financial processes and financial management systems must be safeguarded should any of our business centers be faced with a crisis.
Central Financial Planning System (CFPS) Statement of Net Cost Module	Management and Organizational Excellence	As presented in the Department's updated FY 2004 OMB Exhibit-300 business case, CFPS is the implementation of five distinct modules that together enable more timely and accurate reporting on linking spending, costs, and budgeted resources to performance information. Specific to improving financial management systems and performance, the CFPS Statement of Net Cost Module provides the ability to: associate costs and revenues to strategic goal by organization; produce the Statement of Net Cost; and substantially comply with managerial cost accounting standards.

PLAN INITIATIVE SUBSTANTIALLY COMPLETED IN FY 2003		
Initiative	**Strategic Goal**	**Description**
Information Systems Network Security	Management and Organizational Excellence	State is implementing a comprehensive framework and process for lifecycle management of IT security. The framework and process will provide continual evaluation and improvement. A significant portion of this initiative is now complete including the following: developed a Systems Security Program Plan; adopted the National Institute of Standard Technology (NIST) Certification and Accreditation Program (NISTCAP); established a Configuration Control Board; and implemented an ongoing Certification & Accreditation program.

GOVERNMENT MANAGEMENT REFORM ACT - AUDITED FINANCIAL STATEMENTS

The Government Management Reform Act (GMRA) of 1994 amended the requirements of the Chief Financial Officers (CFO) Act of 1990 by requiring an annual preparation and audit of agency-wide financial statements from the 24 major executive departments and agencies. The statements are to be audited by the Inspector General (IG), or an independent auditor at the direction of the IG. An audit report on the principal financial statements, internal controls, and compliance with laws and regulations is prepared after the audit is completed.

The Department's 2003 financial statements received an unqualified opinion — the best possible result of the audit process. This year marks the seventh consecutive year that the Department's financial statements have achieved such an opinion. The Department significantly accelerated the preparation and audit of its 2003 financial statements — about five weeks earlier than last year. This marks important progress towards our goal of providing more timely, accurate, and useful financial information.

In relation to internal control, the Independent Auditor's Report cites four reportable conditions: (1) information systems security for networks in domestic operations, (2) inadequacy of the Department's financial management systems, (3) management of unliquidated obligations, and (4) implementation of Managerial Cost Accounting Standards. Reportable conditions are significant deficiencies, though not material, in the design or operation of internal control that could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. For each year since 1997, the Independent Auditor's report cited the first matter above relating to information systems security as a material weakness in internal control. The FY 2003 Independent Auditor's Report acknowledges that the Department's work towards correcting this deficiency is sufficiently advanced to reduce this weakness to a reportable condition. The Independent Auditor's Report also states that the Department's financial management systems are non-compliant with laws and regulations, including the FFMIA.

The table below and on the following page summarizes the weaknesses in internal control and compliance with laws and regulations cited in the FY 2003 Independent Auditor's Report, as well as the actions taken to resolve the problems.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS *(Refer to Independent Auditor's Report Section)*			
Reportable Condition	**Corrective Actions**	**Target Correction Date**	**Strategic Goal**
Management of Unliquidated Obligations The Department's internal control process related to managing undelivered orders is inadequate. It lacks a structured process for reconciling and deobligating funds in a timely manner, which may result in the loss of those funds.	As mentioned in the Independent Auditor's Report, the Department has made significant improvements in this area. The Unliquidated Obligation System was implemented in 2000. The system is updated periodically for detailed unliquidated obligation data and facilitates the reconciliation, monitoring, reporting and oversight of unliquidated obligations worldwide. Data in the system is analyzed to facilitate the review and management of open items. For example, instructions and reports were issued to offices to review over $2.9 billion in unliquidated obligations. We continue to develop reports and procedures to improve the management of unliquidated obligations.	2004	Management and Organizational Excellence

SUMMARY OF INDEPENDENT AUDITOR'S REPORT FINDINGS
(Refer to Independent Auditor's Report Section)

Reportable Condition	Corrective Actions	Target Correction Date	Strategic Goal
Information System Network Security Information system networks for domestic operations are vulnerable to unauthorized access. Consequently, other systems, including the Department's financial management systems, which process data using these networks, may also be vulnerable. This weakness was first reported based on penetration tests performed by the General Accounting Office (GAO) and was also cited in the audit opinion on the 1997 financial statements. The auditor reported this matter as a material weakness in internal control each year since 1997. For 2003, the auditor considered the Department's corrective actions sufficiently advanced to reduce this deficiency to a reportable condition.	Over the past year, we have taken considerable measures to improve our cyber security posture, to include: • Establishing a baseline inventory of applications • Developing and implementing a systems/sites authorization project and meeting the first goal of authorizing one-third of systems by August 2003 • Developing and Implementing a Department-wide process to track corrective action in mitigating security weaknesses • Completing the Information Assurance role-based curriculum with the addition of courses for managers at different levels and a web-based security awareness briefing • Revising Department cyber security roles and responsibilities, and developing a draft cyber security program management plan • Maintaining a strong perimeter defense and incident response In FY 2004, the Department plans to complete the authorization of the remaining two-thirds of the systems.	2004	Management and Organizational Excellence
Compliance with Managerial Cost Accounting Standards (MCAS) While the Department complies with certain aspects of the Statement of Federal Financial Accounting Standards #4, it does not have an effective process to routinely collect managerial cost accounting information, establish outputs for each responsibility segment, or allocate all support costs.	The Department is making progress in implementing MCAS. To address MCAS requirements the Department developed a Statement of Net Cost methodology (described in our FFMIA section of this report) that will enable timely and accurate reporting of cost information by responsibility segment and strategic goal.	2004	Management and Organizational Excellence
Financial and Accounting Systems In 1983, the Department identified serious weaknesses in its financial management systems. When first reported, the Department was burdened with overseeing six financial management systems that support its domestic bureaus, overseas posts and other overseas agencies. The financial management systems nonconformance includes the following five weaknesses: deficiencies in data quality; noncompliance with JFMIP core requirements; ineffective interfaces; inadequate documentation and audit trails; and inadequate support of mission performance.	Significant progress has been made over the past few years to improve financial management systems worldwide. The Department has reduced the number of financial systems from six to two; decreased the number of post-level financial systems from nine to two; and re-centralized disbursing offices from 22 to two. Implementation of the new Regional Financial Management System (RFMS) was completed September 2003 and is operational in all overseas posts. The reengineered overseas interface is operational, providing detailed (transaction level) information. Continuity of Operations Plans have been developed for Financial Service Centers in Charleston, SC and Bangkok and for Washington headquarters operations. The Department will continue its ongoing effort to enhance its financial systems in FY 2004.	2004	Management and Organizational Excellence
Noncompliance with Laws and Regulations	**Corrective Actions**	**Target Correction Date**	**Strategic Goal**
Financial and Accounting Systems See discussion above.	See description above.	See above	Management and Organizational Excellence

FINANCIAL HIGHLIGHTS

T he Department's financial statements, which appear in the Financial Section of this Report, received for the seventh straight year an unqualified audit opinion issued by the independent accounting firm of Leonard G. Birnbaum and Company, LLP. Preparing these statements is part of the Department's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Department management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from the accounting records of the Department of State in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

OVERVIEW OF FINANCIAL POSITION

Assets. The Consolidated Balance Sheet shows the Department had total assets of $28.9 billion at the end of 2003. This represents an increase of $2.1 billion (7.8%) over the previous year's total assets of $26.8 billion. The increase is primarily the result of increases of $1.0 billion in Fund Balances with Treasury, $496.6 million in property and equipment, and $550.4 million in investments in the Foreign Service Retirement and Disability Fund (FSRDF). The increase in Fund Balances with Treasury primarily resulted from a $1.4 billion increase in unexpended appropriations.
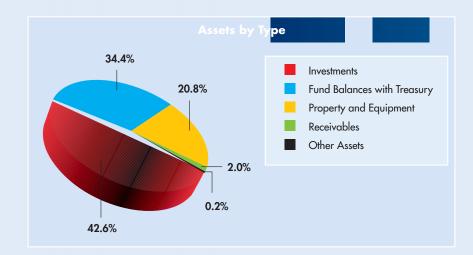
The Department's assets reflected in the Consolidated Balance Sheet are summarized in the following table
(dollars in thousands):

	2003	2002	2001
Investment, Net	$12,301,173	$11,750,737	$11,206,403
Fund Balances with Treasury	9,953,197	8,937,139	7,652,119
Property and Equipment, Net	5,996,493	5,499,850	4,870,466
Accounts, Loans & Interest Receivable, Net	584,230	552,508	403,329
Other Assets	59,553	99,923	91,516
Total Assets	$28,894,646	$26,840,157	$24,223,833

Investments, Fund Balances with Treasury and Property and Equipment comprise 98% of total assets for 2003, 2002, and 2001. Investments consist almost entirely of U.S. Government Securities held in the FSRDF.
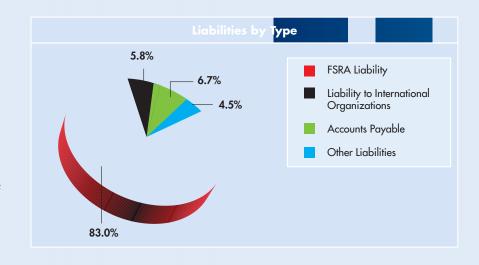
Assets by Type

- 34.4%
- 20.8%
- 2.0%
- 0.2%
- 42.6%

Legend:
- Investments
- Fund Balances with Treasury
- Property and Equipment
- Receivables
- Other Assets

Liabilities. The Department had total liabilities of $15.8 billion at the end of 2003, which is reported on the Consolidated Balance Sheet and summarized in the following table *(dollars in thousands)*:

	2003	2002	2001
Foreign Service Retirement Actuarial Liability	$13,093,800	$12,211,800	$11,766,900
Liability to International Organizations	919,428	1,065,172	1,650,006
Accounts Payable	1,058,514	784,799	823,818
Other Liabilities	709,394	762,632	569,753
Total Liabilities	$15,781,136	$14,824,403	$14,810,477

The Foreign Service Retirement Actuarial (FSRA) Liability of $13.1 billion and the Liability to International Organizations of $919.4 million comprise 89% of the Department's total liabilities at the end of 2003.

Of the total liabilities, $1.96 billion were unfunded, i.e., budgetary resources were not available to cover these liabilities. The $1.96 billion is primarily comprised of the $919.4 million Liability to International Organizations, and the unfunded portion of the FSRA Liability of $653.8 million, which represents the amount by which the $13.1 billion FSRA Liability exceeds the FSRDF's net assets available to pay the liability. The $653.8 million unfunded portion of the FSRA Liability is $329.1 million more than the $324.7 million unfunded FSRA Liability at the end of 2002.

Liabilities by Type

- 5.8%
- 6.7%
- 4.5%
- 83.0%

Legend:
- FSRA Liability
- Liability to International Organizations
- Accounts Payable
- Other Liabilities

The $919.4 million Liability to International Organizations consists of $869.2 million in calendar year 2003 annual assessments, and $50.2 million in accumulated arrears assessed by the UN, its affiliated agencies and other international organizations. These financial commitments mature into obligations only when funds are authorized and appropriated by Congress.

As of September 30, 2003, a total of $926 million had been appropriated by Congress for payment of U.S. arrearages. These amounts, however, were made available subject to certifications by the Secretary of State that certain legislative requirements were met. A payment of $100 million in arrearages was made in FY 2000; a payment of $475 million and a credit of $107 million were made in FY 2002; and payments totaling $242 million were made in FY 2003. Thus, $2 million of appropriations for arrearage payments remain.

Ending Net Position. The Department's Net Position at the end of 2003 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was $13.1 billion, a $1.1 billion (9.1%) increase from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

The growth in Unexpended Appropriations was due principally to the continued increase in budget authority received to rebuild the Department's diplomatic platform.

The decrease in Cumulative Results of Operations resulted mainly from the $329.1 million increase during 2003 in the unfunded portion of the FSRA Liability described on the previous page. This increase resulted from a change in economic assumptions used for valuing the FSRDF plan for consistency with similar Federal plans.
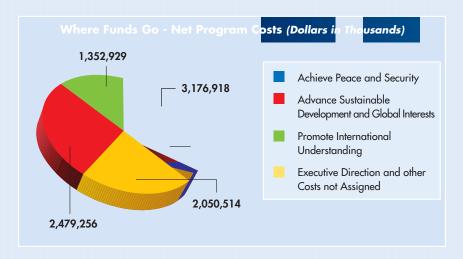
RESULTS OF OPERATIONS

The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Department's gross and net cost for its strategic objectives and strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. The Consolidating Schedule of Net Cost categorizes costs and revenues by strategic goal and responsibility segment. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsibility segment. For presentation purposes, Bureaus have been summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs). Information on the Bureaus (or equivalent) that report to each Under Secretary can be found on the Organization Chart for the Department provided earlier in this Section of this report.

The presentation of program results by strategic objectives and strategic goals is based on the Department's current Strategic Plan established pursuant to the Government Performance and Results Act of 1993. In prior years, the Department presented its program information at the National Interest level to the extent that it was practicable. In accordance with current guidance, prior year data is also presented according to the corresponding strategic goal for comparative presentation.
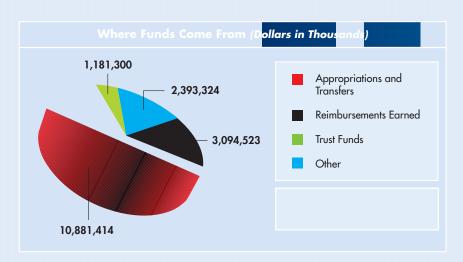
The Department's total net cost of operations for 2003, after intra-departmental eliminations, was $9.1 billion. The strategic objective to "Achieve Peace and Security" represents the largest investment for the Department at 35.1% of the Department's net cost of operations. The net cost of operations for the remaining strategic objectives varies from 14.9% to 27.4%.

Where Funds Go - Net Program Costs *(Dollars in Thousands)*

1,352,929

3,176,918

2,479,256

2,050,514

- Achieve Peace and Security
- Advance Sustainable Development and Global Interests
- Promote International Understanding
- Executive Direction and other Costs not Assigned

The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. Appropriations Used totaled $9.3 billion, comprising 78.0% of the Department's total revenues and financing sources after considering intra-departmental eliminations of $1.7 billion. The charts on this page reflect the funds that the Department received during 2003 and how these funds were used.

Where Funds Come From *(Dollars in Thousands)*

1,181,300

2,393,324

3,094,523

10,881,414

- Appropriations and Transfers
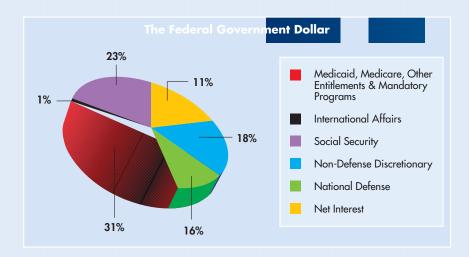- Reimbursements Earned
- Trust Funds
- Other

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the fiscal year, the Department had total budgetary resources of $17.5 billion, a decrease of 1.4% from 2002 levels. Budget Authority of $12.1 billion - which consists of $10.9 billion for appropriations (direct, related, and supplemental) and transfers, and $1.2 billion financed from trust funds - comprise 68.7% of the total budgetary resources. The Department incurred obligations of $14.9 billion for the year, a slight decrease (0.2%) from $15.2 billion of obligations incurred during 2002. Outlays reflect the actual cash disbursed against the Department's obligations.

The Combined Statement of Financing reconciles the resources available to the Department to finance operations with the net costs of operating the Department's programs. Some operating costs, such as depreciation, do not require direct financing sources.

The Federal Government Dollar

- 23%
- 11%
- 1%
- 18%
- 31%
- 16%

Legend:
- Medicaid, Medicare, Other Entitlements & Mandatory Programs
- International Affairs
- Social Security
- Non-Defense Discretionary
- National Defense
- Net Interest

America's Best Guesses

Public Estimates on Foreign Policy Issues

Topic	U.S. Perception	Reality
Percentage of U.S. Budget going to foreign aid	20 percent	Less than 1 percent

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BUDGETARY ISSUES

The FY 2003 Department of State's budget of $7.660 billion included the appropriations that finance the administration of foreign affairs ($6.002 billion); contributions to international organizations and activities ($1.530 billion); international commissions ($57 million); and other related appropriations ($71 million). Two foreign assistance accounts authorized in the State act were also funded ($867 million). The administration of foreign affairs appropriations primarily funds the operating budgets of the Department of State. These appropriations fund the basic platform for conducting the U.S. Government's diplomatic activities around the world as well as building and maintaining the infrastructure that supports most U.S. Government operations overseas. In addition, the Department continues to rely on Machine Readable Visa (MRV), Expedited Passport, and other user fee collections to enhance the nation's border security and help meet consular workload demands, and to invest in modern, responsive information technology systems. These resources are essential to accomplishing two overriding objectives of the President's foreign policy: to win the war on terrorism and to protect Americans at home and abroad.

For our major operating appropriation - Diplomatic and Consular Programs (D&CP) - the Department was funded at $3.911 billion and included the second year of a multi-year Diplomatic Readiness Initiative (DRI) strategy to recruit, hire, train, and deploy additional professionals around the world. The appropriation and transfers, along with increases in MRV fee spending, also supported hiring 584 new employees (above anticipated attrition) including 399 new diplomatic readiness positions, 51 new consular positions to address border security workload increases, and 134 new security professionals. With increased D&CP funding, the Department funded programs to create a work environment to attract and retain talent within a highly competitive economy.

The Department's FY 2003 funding included $1.405 billion for Embassy Security, Construction and Maintenance to manage the Department's real property assets and provide U.S. diplomatic and consular missions with secure, safe, and functional facilities. This funding included $750 million for security capital construction and compound security projects and $505 million for ongoing operations. The Department also received $559 million for Worldwide Security Upgrades within the Diplomatic and Consular Programs appropriations (including $10 million from the Emergency Wartime Supplemental Act) to complete the

perimeter security enhancement program begun under the 1999 Emergency Supplemental Appropriation, to improve technical, counterintelligence and domestic security programs, and to fund the 134 new security professionals. This funding also sustains security programs begun with the FY 1999 emergency supplemental such as worldwide guard protection, physical security equipment and technical support, information/systems security, and personnel and training.

The Department's FY 2003 funding for the Capital Investment Fund included $182 million to provide modern information technology to every Department employee, including secure access to the Internet for all of our employees and modern classified systems. This included funding for completion of the OpenNet Plus initiative, which provided complete web access for all State desktops in May 2003. This funding also went to the Department's goal of providing classified connectivity and email to every eligible post by FY 2004, thereby laying the foundation for modernizing our outmoded cable system.

The Department's FY 2004 budget request [at this date still pending before the Congress] continues to support the Department's priorities to support the War on Terrorism and build diplomatic readiness. The request includes $1.5 billion for enhanced security and the War on Terrorism, including $861 million to design and/or construct secure facilities, additional site acquisition, and compound security projects; and $647 million to upgrade worldwide security readiness including increased guard protection, chem/bio defense, and facility protection measures.

The request also includes funding to support hiring 552 additional Americans including 85 security professionals and support staff; 399 new hires to meet the highest priority diplomatic readiness staffing needs; and 68 new consular positions to enhance Border Security and ensure the security of U.S. visas and passports. The Department's request of $157 million for the Capital Investment Fund allows for continued investment in state-of-the-art IT systems worldwide, including extending classified connectivity to every post requiring it.

LIMITATION OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for the Department of State pursuant to the requirements of Chapter 31 of the United States Code section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with the formats prescribed in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to the enactment of appropriations.

The Department also issues financial statements for its International Cooperative Administrative Support Services (ICASS) and the International Boundary and Water Commission (IBWC). The complete, separately-issued ICASS and IBWC Annual Financial Reports are available from the Department's Bureau of Resource Management, Office of Financial Policy, Reporting and Analysis, 2401 E Street, Room H1500, Washington, DC, 20037; (202) 261-8620.

DEPARTMENT OF STATE HISTORY

WHY IS IT CALLED THE DEPARTMENT OF STATE?

On September 15, 1789, Congress passed "An Act to provide for the safekeeping of the Acts, Records, and Seal of the United States, and for other purposes." This law changed the name of the Department of Foreign Affairs to the Department of State because certain domestic duties were assigned to the agency. These included:

- Receipt, publication, distribution, and preservation of the laws of the United States;
- Preparation, sealing, and recording of the commissions of Presidential appointees;
- Preparation and authentication of copies of records and authentication of copies under the Department's seal;
- Custody of the Great Seal of the United States;
- Custody of the records of the former Secretary of the Continental Congress, except for those of the Treasury and War Departments.

Other domestic duties that the Department was responsible for at various times included issuance of patents on inventions, publication of the census returns, management of the mint, control of copyrights, and regulation of immigration. Most domestic functions have been transferred to other agencies. Those that remain in the Department are: preparation and authentication of copies of records and authentication of copies under the Department's seal, storage and use of the Great Seal, performance of protocol functions for the White House, drafting of certain Presidential proclamations, and replies to public inquiries.

WHO WAS THE FIRST U.S. DIPLOMAT?

Benjamin Franklin was the first U.S. diplomat. He was appointed on September 26, 1776 as part of a commission charged with gaining French support for American independence. He was appointed Minister to France on September 14, 1778 and presented his credentials on March 23, 1779, becoming the first American diplomat to be received by a foreign government. Franklin was one of three Commissioners who negotiated the peace treaty with Great Britain, and continued to serve in France until May 17, 1785.

WHEN WAS THE FIRST U.S. TREATY SIGNED?

The first U.S. treaty to be signed was the Treaty of Amity and Commerce with France that was signed in Paris on February 6, 1778.

WHAT IS THE OLDEST DIPLOMATIC PROPERTY OWNED BY THE UNITED STATES?

The oldest diplomatic property owned by the United States is the U.S. Legation building in Tangier (see page 205). The Sultan of Morocco made a gift of the building in 1821. It served as the U.S. Consulate and Legation until 1956. It is currently preserved as a museum and study center.
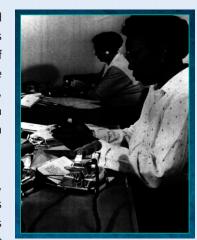
LITTLE KNOWN FACTS ABOUT THE DEPARTMENT OF STATE

THE U.S. PASSPORT

The term "passport" derives from the French word passer, to enter or leave, and port, a port. It literally means a permit to leave a country. Issuance of passports and travel documents was first mentioned as a function of the Department of Foreign Affairs in 1782. The Department of State did not receive exclusive authority to issue passports until 1856. Prior to that date, governors, mayors, and even notaries public were known to issue passports. During the 19th century, the U.S. Government required travelers to obtain passports only in wartime. They would not be required of all travelers until 1914.

The earliest surviving U.S. passport was issued in France by Benjamin Franklin, Arthur Lee, and John Adams to W.D. Cheevert, David Sears, and their servants on December 27, 1778, for travel to Holland. During the 1790s many passports were issued collectively to merchant ships and their crews. The passport function is the activity of the Department that the general public is most likely to encounter.

MARINE SECURITY GUARDS

During the 19th century, the U.S. Navy was frequently called upon to protect American lives and property in remote parts of the world. Marine detachments took part in these operations and on occasion were expected to protect diplomatic missions. The first such instance took place in 1835, when four marines from the U.S.S. Brandywine were assigned to protect the Consulate in Lima, Peru. The next year, one Marine was detailed to this task. Legation guard detachments were stationed at various times in Tokyo, Seoul, and Managua.

Civilian guards were unable to maintain adequate security at overseas missions, and the Department accordingly turned to the Armed Forces. The Secretary of State and the Secretary of the Navy signed a memorandum of agreement on December 15, 1948, which established the present Marine Security Guard program. Today Marines are assigned to Foreign Service posts throughout the world.
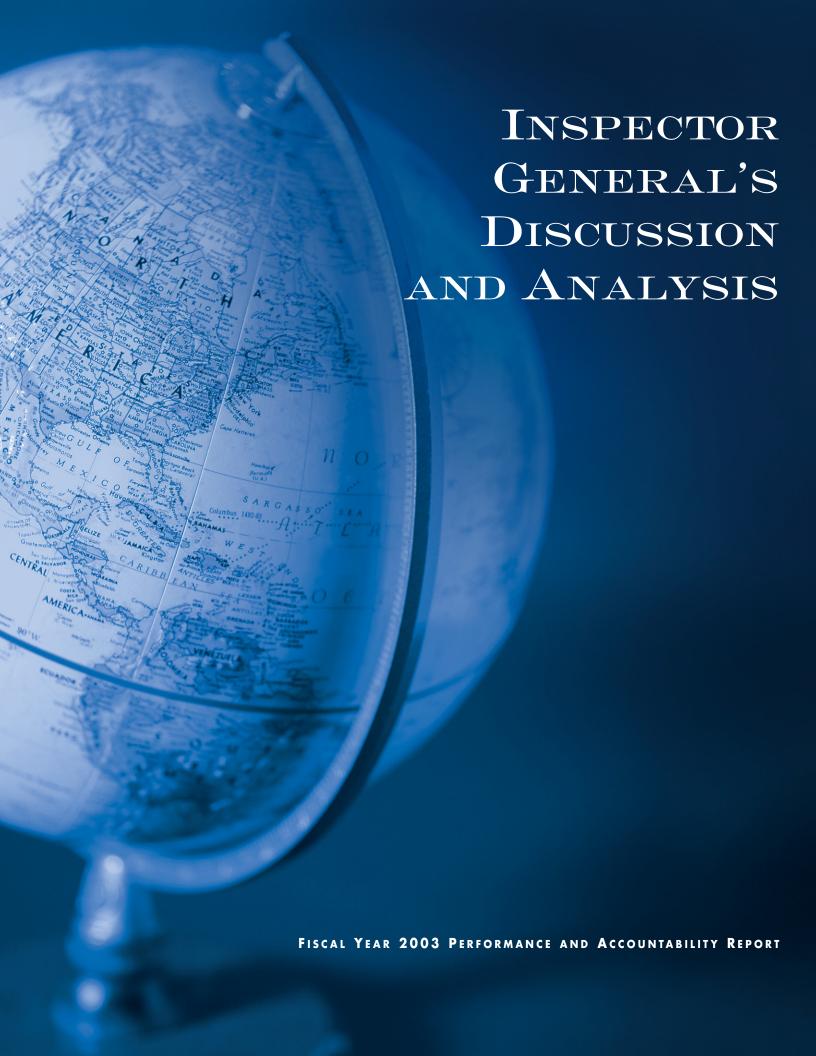
CRISIS MANAGEMENT TASK FORCES

Crisis task forces are formed to meet challenges to U.S. interests and include members from all affected government agencies. These task forces operate 24 hours-a-day and remain in operation until the crisis is resolved. The crisis task force pictured was formed because of the instability in Haiti in June 1964.

INSPECTOR GENERAL'S DISCUSSION AND ANALYSIS

MESSAGE FROM THE DEPUTY INSPECTOR GENERAL

The Office of Inspector General (OIG) for the Department of State was established 17 years ago, nearly a decade after the Inspector General Act created the first independent Inspectors General at federal agencies. Mandated to provide independent and objective oversight of Department operations, OIG has also tried, within the limits of its statutory independence, to partner proactively with the Department's leadership, managers, and employees toward a common purpose: to ensure that its programs and operations are carried out effectively, efficiently, and economically, with integrity and accountability, in a way that serves the best interests of the President, the Congress, and the American people.

OIG's work, by its very nature, is directed toward improving performance and strengthening accountability, thereby supporting the Department's achievement of positive results in its programs and operations. The impact of OIG's efforts is evidenced by the degree to which our work is reflected in this Performance and Accountability Report: our audits of Department financial statements, our identification of major management challenges, our issuance of reports and recommendations addressed by the Department. OIG audits, inspections, and other reviews are a primary means to evaluate the success of Department programs, and our reports have served as a reference in identifying issues of concern for the Deputy Secretary's Senior Policy, Performances and Resource Reviews. To reinforce our focus on promoting positive change in the Department, our strategic goals are expressed in terms of the desired effect of our work on the Department's foreign policy, security, financial management, and administrative support activities, and on the overall integrity of its operations.

The responsiveness of the Department to OIG's work and recommendations has resulted in some notable accomplishments during the past year. Passport application requirements have been changed to make it necessary for children under 14 to appear in person when applying for a passport, closing a loophole that facilitated the smuggling of children. Embassy designs have been changed to correct a security vulnerability identified by OIG that could have compromised the safety of mission employees and information. The Department has once again received a clean opinion on its financial statements and, through close coordination with OIG, again met OMB's accelerated deadline for submission of the financial statements. During FY 2003, OIG audits and investigations also resulted in nearly $13 million in potential monetary benefits, and the Department took action to recover and make better use of $14 million in questioned costs and funds put to better use identified by OIG in prior fiscal years.

I am pleased to have the contributions and results of the OIG highlighted in this report. A more detailed description of our accomplishments and success in achieving our strategic and performance goals can be found in OIG's FY 2003 Performance Report, which has been published separately in conjunction with this report.

Anne W. Patterson

Anne W. Patterson
Deputy Inspector General

SUMMARY OF FY 2003 PERFORMANCE

This summary presents the highlights of OIG's FY 2003 Performance Report.

Vision

To support the Department of State and the Broadcasting Board of Governors in achieving their missions as effectively, efficiently, and economically as possible.

Mission

The mission of the Office of Inspector General is to serve as an independent, objective reviewer and evaluator of the operations and activities of the Department and the BBG[1]. We analyze those operations and activities with a view toward promoting effectiveness, efficiency, and economy. We seek out instances of fraud, waste, abuse, and mismanagement, and we work to prevent them. We report to the Secretary of State, the BBG, and the Congress, keeping them fully and currently informed of significant developments and serious concerns.
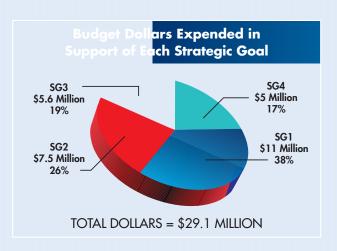
Strategic Goals

OIG's four strategic goals directly support the programs, operations, and activities of the Department and BBG, and are expressed in terms of their effect upon the agencies' ability to achieve their respective missions and strategic objectives. OIG's strategic goals are to support and assist the Department and BBG to:

1. Effectively, efficiently, and economically advance the foreign policy interests of the United States.
2. Adequately protect the people, information, and facilities under their control in the United States and abroad.
3. Have the necessary financial management and support systems and controls to meet legal and operational requirements.
4. Ensure accountability and prevent or eliminate fraud, waste, abuse, and mismanagement in programs and operations.

Resources

Staff Supporting Each Strategic Goal

SG3: 49 22%
SG4: 45 20%
SG2: 64 28%
SG1: 67 30%

TOTAL STAFF = 225

Budget Dollars Expended in Support of Each Strategic Goal

SG3 $5.6 Million 19%
SG4 $5 Million 17%
SG2 $7.5 Million 26%
SG1 $11 Million 38%

TOTAL DOLLARS = $29.1 MILLION

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[1] References to the Broadcasting Board of Governors (BBG) in the vision, mission, and goals refer to OIG's statutory authority as the OIG for the BBG as well as the Department of State. However, these responsibilities are not relevant to or addressed as part of the Department's Performance and Accountability Report.

Highlights of OIG's Most Significant Results and Outcomes

During FY 2003, OIG reviews, findings, and recommendations resulted in benefits and outcomes, including improvements to Department security, programs, and operations. The most significant of these results and challenges are presented below.

HIGHLIGHTS OF THE OIG'S MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES

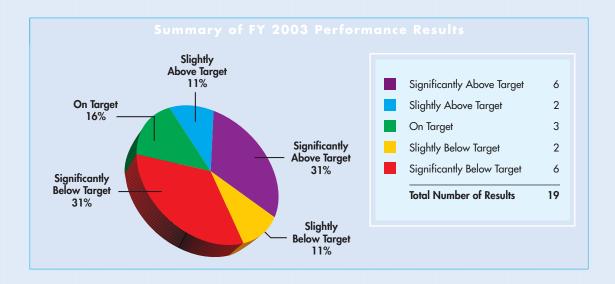| RESULTS	CHALLENGES
Foreign Policy	
◆ The Department developed a phased plan to increase the number of end-use checks of munitions exports and will specify to posts when a site visit is required as part of an end-use check.	◆ OIG does not presently have the resources necessary to carry out the five-year inspection schedule requested by senior management to ensure effective oversight of post and bureau operations.
◆ The Department is revising passport regulations and application forms to require children under 14 to appear personally when passport applications are executed on their behalf, thereby closing a loophole that facilitated the smuggling of children.	◆ OIG must effectively balance the scope, frequency, and size of post management inspections to ensure adequate oversight of missions and bureaus.
◆ The Department has begun an extensive analysis of consular workload worldwide to assess consular resource needs in the post-9/11 era.	◆ OIG must Identify and attract personnel with specialty skills (e.g., political, economic, public diplomacy, executive management) needed to ensure effective oversight of the full range of post and bureau operations.
Security	
◆ The Department implemented procedures to better control secure compartmentalized information documents and ensure that vulnerabilities identified by technical surveillance countermeasure evaluations are corrected promptly, and strengthened internal procedures for adjudicating security violations and referring valid violations for possible disciplinary action.	◆ Due to continual changes in worldwide threat conditions, security vulnerabilities persist even when recommended security enhancements are promptly implemented.
◆ The Department clarified guidance on actions needed to protect Top Secret documents stored on electronic media, as well as for labeling and storing certain classified electronic media.	◆ Need to focus limited resources on security inspections of critical and high threat posts, despite the potential for increasing vulnerability of posts with lower threat levels.
◆ The Department is altering the design and construction of Compound Access Control facilities to eliminate an OIG-identified vulnerability.	
◆ The Department has developed oversight guidance and training, briefed senior office managers, trained more than 700 officers, and designed program implementation tools to assist the Department's Unit Security Officers in implementing the Department's security program.	
Financial Management & Administrative Support	
◆ The Department developed written policies and procedures for bureau travel card program coordinators and cardholders and has made them centrally available on an intranet site.	◆ Continued growth in legislative mandates and other unanticipated requests seriously limits OIG's ability to conduct planned, non-mandated work.
◆ The Department also developed guidelines for addressing individually billed travel card accounts that are in the 60-day past due category and developed guidance on when and how to transfer cardholders' accounts from one bureau to another or to an overseas mission.	
◆ The Department is significantly improving the accuracy, reliability, and availability of its financial information and focusing efforts to address several significant internal control and non-compliance issues, including information systems security.	

HIGHLIGHTS OF THE OIG'S MOST IMPORTANT RESULTS AND CONTINUING CHALLENGES *Continued*

RESULTS	CHALLENGES
Accountability	

RESULTS

◆ $5.3 million in questioned costs and $0.5 million in funds put to better use were identified in the course of OIG audits.

◆ Investigative recoveries totaled $7.3 million.

◆ The president of a company that misrepresented the qualifications of explosive ordnance detection dogs and handlers provided to the Department was sentenced to 78 months' imprisonment and 36 months' supervised probation and was also fined $2,700 and ordered to make restitution of more than $708,000.

◆ A Nigerian national was convicted of passport fraud, sentenced to a year and a day in prison, and deported from the United States.

CHALLENGES

◆ New mandates for OIG to audit more than $700 million in 632(a) transfer grants could seriously limit OIG's ability to conduct other non-mandated contract and grant audits.

FY 2003 Performance Results

OIG's Performance Plan contains four strategic and eight performance goals, along with nineteen indicators and targets used to evaluate its success in achieving these goals.

Summary of FY 2003 Performance Results

Slightly Above Target 11%
On Target 16%
Significantly Below Target 31%
Significantly Above Target 31%
Slightly Below Target 11%

Significantly Above Target	6
Slightly Above Target	2
On Target	3
Slightly Below Target	2
Significantly Below Target	6
Total Number of Results	**19**

As shown in the chart above, 58 percent of OIG's performance results met or exceeded performance targets. This represents an improvement over FY 2002, when 47 percent of results met or exceeded performance targets. In addition, 56 percent of FY 2003 results exceeded those for FY 2002, and 44 percent were the best results for the past four fiscal years (2000 through 2003).

The bar chart below shows the percentage of results attained for each strategic goal that were equal to or exceeded the "on target" rating. The Security strategic goal met 83 percent of performance targets.

Percentage of Reported Results With Ratings Equal to or Above "On Target" By Strategic Goal

Legend:
- Foreign Policy
- Security
- Financial Management and Administration
- Accountability

OIG's most successful results included identifying $13 million in potential monetary benefits resulting from audits and investigations, versus a target of $7.8 million, and closing 92 percent of significant security recommendations within one year of issuance, versus a target of 50 percent. Results that fell significantly below target included closing 49 percent (versus a target of 72 percent) of financial and administrative support recommendations and 38 percent (versus a target of 50 percent) of the significant financial and administrative support recommendations within a year of issuance.

Reasons for Performance Shortfalls and Continuing Challenges

A significant reason why performance targets were not being met was resource shortages during the fourth quarter of the fiscal year, which resulted in cutbacks to staffs responsible for addressing compliance with OIG recommendations; cancellation, curtailment, or postponement of more than a dozen audits and inspections; and a halt on travel for all but high-priority investigations. Efforts to meet targets for recommendations resolved and closed, and in particular for closure of our most significant recommendations, also were hampered by agency delays in responding to recommendations and by some recommendations taking longer to implement than anticipated. In addition, the departure of senior and mid-level OIG staff to the new Department of Homeland Security delayed completion of some projects.

OIG continues to face two major challenges to its ability to achieve its strategic and performance goals:

■ Addressing resource constraints that make it difficult for OIG to meet its oversight responsibility for a diverse and demanding workload of post management, security, and information technology inspections; an ever-increasing number of mandated audits and reviews; Congressional and Department requests for OIG assistance; allegations and indications of waste, fraud, abuse, and mismanaagement; and other self-initiated audits, inspections, investigations, and reviews of issues, programs and operations that OIG believes are necessary; and

■ Identifying, attracting, and retaining Civil Service and Foreign Service personnel with the requisite skills, abilities, and experience.

OIG expects to reevaluate and revise its strategic and performance plans, goals, and indicators during FY 2004, as appropriate, once a new Inspector General is nominated and confirmed.

MANAGEMENT AND PERFORMANCE CHALLENGES

The Reports Consolidation Act of 2000 requires that the Office of Inspector General identify the most serious management and performance challenges facing the Department. The OIG concludes that the most serious management and performance challenges to the Department are in the following areas:

- Protection of Our People and Facilities
- Information Security
- Financial Management
- Human Resources
- Counterterrorism and Border Security
- Strategic and Performance Planning

Protection of Our People and Facilities

Protecting its people and facilities from terrorist attacks continues to be one of the Department's highest priorities. Following the 1998 terrorist attacks against the U.S. embassies in Nairobi and Dar es Salaam and heightened U.S. security concerns in the wake of the terrorist attacks of September 11, 2001, the Department embarked on an ambitious program to construct or upgrade diplomatic missions that are inadequate and, in some cases, unsafe. The Department's program to replace 185 vulnerable embassies and consulates is in its early stages, but the pace of initiating and completing new construction projects has increased significantly over the past two years. From 1999 to 2003, the Department received approximately $2.7 billion for this program. As of September 30, 2003, the Department had completed seven projects to replace embassies and consulates at risk of terrorist or other attacks and had another 21 under construction. The Department has also received over $750 million to improve perimeter and compound security at existing facilities. Despite the Department's aggressive efforts, many embassies cannot expect new and safer buildings in the short term.

OIG contributed to the Department's priority of protecting people and facilities from terrorist attacks by conducting 11 limited-scope and nine full-scope inspections of overseas missions in 2003. Limited-scope inspections are confined to a review of physical security and emergency preparedness and are intended primarily to identify and correct weaknesses in the mission's defenses against a large-scale vehicle bomb attack. Full-scope inspections review the full range of a mission's security program, including emergency preparedness, physical, technical, procedural, information, and personnel security. In addition to these inspections, OIG completed two follow-up reviews – one at Embassy Berlin and the other at Embassy Moscow. These reviews examined each mission's compliance with the previous inspections' recommendations.

Because the majority of OIG's FY 2003 security inspections were limited to reviews of physical security and emergency preparedness, most of the security findings and recommendations of this period fell into these two categories, with emergency preparedness emerging as the area most needing improvement. OIG findings revealed the need for improvements in: 1) alerting personnel to take immediate action in response to an imminent vehicle bomb attack, 2) providing adequately stocked safe havens, and 3) conducting all Department-required emergency drills on an annual basis.

Approximately one-third of the security inspections found setback – the distance from the outermost perimeter barrier to the building's exterior wall – to be inadequate. Setback is a key factor in countering a vehicle bomb attack. The lack of adequate setback can be partially mitigated by other factors, such as acquiring abutting properties and closing or controlling access to surrounding streets. These inspections found that some measures such as street closure- or access-control had been taken, but that more needs to be done. Another common physical security deficiency at overseas posts is building exteriors that fail to meet the Department's security standards for forced-entry and ballistics protection, which provide mission personnel protection against a mob attack or violent demonstrations.

Information Security

The increase in the use of the Internet, coupled with the dramatic expansion in computer interconnectivity, has changed the ways that the government, the nation, and much of the world communicate and conduct business. Without adequate safeguards, computer-supported Department operations could be at enormous risk and allow individuals and groups with malicious intent to intrude into inadequately protected systems. Among the worst scenarios, this access could allow intruders to launch attacks against other computer networks and systems, disrupt operations, commit fraud, or obtain sensitive information. Previous General Accounting Office, OIG, and Bureau of Diplomatic Security reports have identified persistent computer security weaknesses that place a variety of critical and mission-essential Department operations at risk of disruption, fraud, and unauthorized disclosure.

The Department recognizes that much more must be done to develop fully and ensure the continuity of its systems security program. As mandated by the Federal Information Security Management Act of 2002, OIG conducted an annual evaluation of the Department's information security programs. In the September 2003 report, OIG noted significant improvements over the previous year's evaluation. In response to one of the report's key recommendations, the Department successfully completed an overview of its management approach to information security for the FY 2003 draft Cyber Security Program Management Plan. The Department also was in the process of implementing a systems authorization plan to provide certification and accreditation for its new and existing major applications and general support systems. As of August 2003, five percent of its systems had been certified and accredited. Further, 77 percent of the Department's 217 systems have security-level determinations (up from 72 percent in FY 2002). However, only 3 percent have security plans (down from 15 percent in FY 2002). Other changes included an overhaul of the capital planning and investment control process and institutional organizational changes.

OIG also focused on the overall protection of classified information at home and abroad. OIG reviewed the protection of classified and unclassified information at overseas posts, as part of the nine full-scope security oversight inspections completed in FY 2003. OIG also conducted the second of three annual audits evaluating the protection of classified information at Main State, as required by the FY 2003 Intelligence Authorization Act. Several key areas, including the Department's financial system, require senior management attention in order to develop fully and ensure the continuity of the Department's systems security program.

Financial Management

The Department has made significant improvements in the area of financial management; however, serious problems persist and represent challenges that must be addressed. OIG is pleased to note that the Department has received unqualified (clean) opinions on its agency-wide statements for the past seven years, indicating that the statements were free of material misstatements, and has met the mandated deadline for the past three years. However, OIG's most recent audit of the Department's financial statements noted serious concerns related to information systems security, the adequacy of the Department's financial systems, undelivered orders, and managerial cost accounting. The unqualified opinion was achieved, for the most part, through the extensive efforts of the Department's financial management staff to overcome those weaknesses and produce auditable information. This underscores the need for the Department to improve its financial management systems.

Weaknesses in the Department's financial management systems are a long-standing problem. The audit of the FY 2002 financial statements identified inadequacies in the Department's financial and accounting systems. The Department has made substantial compliance with the Federal Financial Management Improvement Act a top priority, and improvement initiatives to achieve that goal are under way.

While the Department has made improvements in managing undelivered orders, including a database to track them, the balance is extremely high and, in fact, has grown over the past few years. For instance, the amount of undelivered orders increased from $3.3 billion in FY 2001 to over $5 billion in FY 2002. In addition, the annual audits of the financial statements have consistently found that a large portion of these obligations is unnecessary. During the FY 2002 audit, an independent accounting firm estimated that at least $230 million should have been deobligated. The Department is actively working to address this issue.

To address weaknesses related to managerial cost accounting that were identified during the annual audit of the financial statements, the Department is developing a Central Financial Planning System that it believes will address many of the concerns.

Human Resources

Overall, OIG FY 2003 reviews found staffing levels in the Department and at overseas posts to be generally adequate, with the exception of consular staffing overseas. In FY 2003, OIG continued to raise concerns about the number and training of consular personnel overseas. OIG identified junior officer rotational assignments as an impediment because visa processing positions were regularly filled by untrained junior officers, often for less than a full year. OIG also found that there was inappropriate assignment of junior officers "stretched" into key consular positions at higher grade levels, such as supervisory visa positions. In addition, OIG found first-tour officers staffing one-officer consular sections, a position that requires the depth of experience of a second-tour officer to meet the new levels of performance required to improve U.S. border security.

OIG believes significant progress has been made in addressing some of these concerns. For example, the Department initiated an extensive consular workload analysis throughout the Foreign Service to assess consular resource needs following the terrorist attacks of September 11, 2001. However, significant challenges remain, including insufficient numbers of officers, inexperienced officers placed in management positions, and undergraded positions, particularly as the consular workload has increased in response to new requirements for the use of visa biometrics and the need to interview more applicants.

OIG continued to review rightsizing issues at posts overseas to determine whether staffing was adequate to meet established goals and objectives. Where appropriate, recommendations were made to improve mission effectiveness through decreases or increases in staffing. OIG's review of Embassy Mexico City and its constituent posts, which comprise the largest U.S. nonmilitary presence outside the United States, found rightsizing to be the most urgent task confronting the Ambassador. OIG determined that staffing at the mission grew by more than 35 percent between December 1996 and December 2002, chiefly due to the increased consular workload, improved law enforcement cooperation, and the emphasis on national security since September 11, 2001. OIG recommended that the Department require all agencies at the mission to submit five-year projected staffing patterns to allow for improved coordination and control.

Counterterrorism and Border Security

Since early 2002, OIG has reviewed aspects of the Department's consular operations, both domestic and overseas, that directly affect border and homeland security in the post-September 11, 2001, era. OIG is conducting these reviews to identify weaknesses that might allow visas, passports, and other types of immigration documentation to be issued to members of terrorist organizations and their supporters.

In FY 2003, OIG issued reports that reviewed the Department's domestic passport operations, diversity visa program, and nonimmigrant visa issuance policy. OIG identified several shortcomings such as a lack of uniformity in visa processing and, in the Bureau of Consular Affairs, the lack of planning staff to develop consular input into border security initiatives and directions. A review of nonimmigrant visa issuance policy and procedures found that the Department did not fully appreciate, at that time, the pivotal role of the consular function as part of a coordinated national effort to manage border security and that, despite significant progress in bringing uniformity to the visa process, more needs to be done if the process is to be made more secure. Among OIG's recommendations is the need to reconfigure or enlarge space at many posts to accommodate the new mandated requirements for visa operations.

In response, the Department sent cables to ambassadors outlining the importance of the visa function in achieving U.S. border security and the need to integrate the consular and visa operations into their broader mission programs, as well as the importance of training consular officers at post. The Department also is working to improve consular training modules. In addition, OIG is assisting the Department by conducting surveys with each overseas inspection to gather worldwide data regarding aspects of consular operations at posts abroad that can be used to review and measure the inspected mission's border security readiness. These surveys of four key "areas of emphasis" in the visa-issuing process – executive oversight, staffing, training, and consular facilities – will form the basis for an annual OIG review of the Department's progress in strengthening U.S. border security.

An OIG review of the Department's domestic passport fraud prevention programs found that the smuggling of children or the substitution of the photograph of one child for another was facilitated by a regulatory exemption allowing children under 14 not to appear personally to apply for U.S. passports. In response to OIG's recommendation, the Bureau of Consular Affairs notified overseas posts that it plans to revise passport regulations and the instructions on the passport application form to direct that children under 14 are required to appear personally when passport applications are executed on their behalf.

Strategic and Performance Planning

Strategic and performance planning, measurement, and budget integration continue to present challenges for the Department, although significant steps to meet and overcome them were taken in FY 2003. Some of the key challenges that OIG found include: communicating and institutionalizing the planning process, translating these efforts into awareness and understanding at both senior and working levels within the Department, developing meaningful and measurable performance indicators for all aspects of foreign diplomacy, ensuring that performance plans and results are used effectively in managing mission and bureau personnel and resources, improving the integration of mission and bureau performance plans and resource allocations, linking broader plans and goals to individual office and employee performance plans, and fully integrating performance goals, measures, and results with budget formulation and implementation processes and decisions.

During FY 2003, the Department devoted considerable effort to improving its planning and resource allocation process and to addressing weaknesses in its planning and performance reporting that had been identified by OMB and independent evaluation groups. The planning and resource allocation process receives attention at the highest levels of the Department, with the Deputy Secretary of State personally overseeing reviews of individual bureau performance plans and resource requests that focus on the linkage between a bureau's initiatives, programs, and resources and their desired results. Other Department efforts included establishing a joint strategic plan with the U.S. Agency for International Development, forming two joint councils to ensure coordination and collaboration on a variety of policy and management issues that cut across the two agencies, streamlining and automating the planning cycle, identifying new outcome and efficiency measures for many of its initiatives and programs and reducing the overall number of performance measures to focus on the most critical indicators, and issuing its first integrated performance budget.

OIG's work this past year on issues relating to the Department's strategic and performance planning and implementation efforts was focused largely on assessments of individual program and mission efforts rather than systemic activities. OIG inspections found that the streamlined and automated planning process had reduced some of the burden on overseas missions, although software problems were still an issue with some posts. In addition, at most successful missions inspected, Mission Performance Plans were being used effectively to manage priorities and performance, although their role in allocating resources was limited. OIG is working with the Department to establish a methodology and schedule to ensure verification and validation of the Department's most important performance measures.

25th Anniversary of the Inspector General Act

Nearly 25 years ago, Congress sought to increase oversight of federal programs and operations, and to create a mechanism to report independently the results of these oversight reviews, with the passage of the Inspector General Act of 1978. The Act established Inspectors General to keep agency heads and Congress informed about program or operational deficiencies and gave them the authority and responsibility to be independent forces for effectiveness, efficiency, and economy within the federal government. On August 27, 1986, the U.S. Department of State's Office of Inspector General (OIG) was established under amendments to the Inspector General Act.

The State Department has a long history of mandated inspections and oversight to ensure program integrity. The 1906 Act to Reorganize the Consular Service of the United States required reviews of consular offices abroad to ensure the accurate accounting of consular fees and proper performance of their duties. In 1924, the Rogers Act expanded the inspection universe to include diplomatic as well as consular posts. This requirement was further expanded under the Foreign Service Act of 1946, which required Foreign Service inspectors to "inspect in a substantially uniform manner and at least once every two years the work of the diplomatic and consular establishments of the United States." The inspection cycle was extended to five years under the Foreign Service Act of 1980, which also established the Inspector General of the Department of State and the Foreign Service. To ensure that this function was carried out in an independent and objective manner, the Omnibus Diplomatic Security and Antiterrorism Act of 1986 required the establishment of an independent OIG at the Department by October 1, 1986, and increased the responsibilities of the office to include audits and investigations. The new State Department Inspector General was designated to serve concurrently as the Inspector General of the Arms Control and Disarmament Agency (ACDA).

Passage of the Omnibus Appropriation Act of 1996 (PL 104-28) merged the Office of Inspector General of the U.S. Information Agency (USIA), including the Broadcasting Board of Governors (BBG), with that of the Department and ACDA, effective April 26, 1996. The Foreign Affairs Reform and Restructuring Act of 1998 integrated ACDA into the Department on April 1, 1999, and USIA into the Department on October 1, 1999, completing the consolidation begun under the Office of Inspector General merger.

OIG Strategic and Performance Goals

The Government Performance and Results Act of 1993 (Results Act) requires agencies to submit annual performance reports detailing their success in achieving the goals and measures in their annual performance plans. As the independent oversight body for the Department of State, as well as the Broadcasting Board of Governors, the Office of Inspector General has chosen to develop its own vision, mission, and strategic and performance goals and to submit individual performance plans and reports along with those of the Department.